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THE ONTARIO COMMITTEE ON TAXATION

REPORT 1967

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THE ONTARIO COMMITTEE ON TAXATION

VOLUME I

APPROACH, BACKGROUND AND CONCLUSIONS

To His Honour
The Honourable W. Earle Rowe, P.C., LL.D., D.Sc. Soc.
Lieutenant Governor of Ontario

May it please Your Honour

We, the commissioners of The Ontario Committee on Taxation appointed under The Public Inquiries Act by Order-in-Council OC-557/63, dated the 26th day of February, 1963, to inquire into and report upon the taxation and revenue system of the Province of Ontario and its municipalities and school boards within the terms set forth in that Order-in-Council, beg to submit the accompanying Report.

Chairman.

Eric Hardy

R. Craig McIvor

August 30, 1967
Toronto,

ONTARIO

EXECUTIVE COUNCIL OFFICE

Copy of an Order-in-Council approved by His Honour the Lieutenant Governor, dated the 26th day of February, A.D. 1963.

Upon the recommendation of the Honourable the Prime Minister, the Committee of Council advise that pursuant to the provisions of The Public Inquiries Act, R.S.O. 1960, Chapter 323, and effective from November 21, 1962, a commission be issued appointing:

Lancelot J. Smith, F.C.A.,	Toronto,
Eric Hardy,	Toronto,
Dr. R. Craig McIvor,	Hamilton,
Carl Pollock,	Kitchener, and
R. Bredin Stapells, Q.C.	Toronto,

as commissioners, designating them as The Ontario Committee on Taxation, and naming the said Lancelot J. Smith as chairman thereof,

(a) to inquire into and report upon the taxation and revenue system of the Province of Ontario and its municipalities and school boards in relation to their expenditures, the tax and revenue sources available to them, their debts and other financial obligations, with a view to determining whether, within the constitutional limitations existing and having regard to present and potential financial requirements, such tax and revenue system is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised,

(b) in connection therewith, to inquire into such other matters as the commissioners shall deem advisable,

(c) to co-operate with the Royal Commission on Taxation and with any other bodies of inquiry appointed by other Provincial Governments, and

(d) after due study and consideration, to make such recommendations in accordance with the objectives and terms set out herein as the commissioners see fit to the Prime Minister and the Executive Council of Ontario.

The Committee further advise that pursuant to the said Act the said commissioners shall have the power of summoning any person and requiring him to give evidence on oath and to produce such documents and things as the commissioners deem requisite for the full investigation of the matters into which they are appointed to examine;

And the Committee further advise that all Government departments, boards, agencies and committees shall assist, to the fullest extent, the said The Ontario Committee on Taxation which, in order to carry out its duties and functions, shall have the power and authority to engage such counsel, staff and technical advisers as it deems proper.

Certified,
J. J. Young,
Clerk, Executive Council

PROVINCE OF ONTARIO
(Signed) W. EARL ROWE

ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, Canada and Her other Realms and Territories, Queen, Head of the Commonwealth, Defender of the Faith.

TO Lancelot J. Smith, Esquire, of the City of Toronto; Eric Hardy, Esquire, of the City of Toronto; Dr. R. Craig McIvor, of the City of Hamilton; Carl Pollock, Esquire, of the City of Kitchener and R. Bredin Stapells, One of Our Counsel learned in the Law, of the City of Toronto

GREETING:

WHEREAS in and by Chapter 323 of The Revised Statutes of Ontario, 1960, entitled "The Public Inquiries Act", it is enacted that whenever Our Lieutenant Governor in Council deems it expedient to cause inquiry to be made concerning any matter connected with or affecting the good government of Ontario or the conduct of any part of the public business thereof or of the administration of justice therein and such inquiry is not regulated by any special law, he may, by Commission appoint one or more persons to conduct such inquriy and may confer the power of summoning any person and requiring him to give evidence on oath and to produce such documents and things as the commissioner or commissioners deems requisite for the full investigation of the matters into which he or they are appointed to examine;

AND WHEREAS Our Lieutenant Governor in Council of Our Province of Ontario deems it expedient to cause inquiry to be made concerning the matters hereinafter mentioned:

NOW KNOW Ye that We, having and reposing full trust and confidence in you the said Lancelot J. Smith, Eric Hardy, Dr. R. Craig McIvor, Carl Pollock and R. Bredin Stapells, One of Our Counsel learned in the Law DO HEREBY APPOINT you, effective November 21st, 1962, to be Our Commissioners, designating you as "The Ontario Committee on Taxation", and naming you, the said Lancelot J. Smith to be the Chairman thereof,

(a) to inquire into and report upon the taxation and revenue system of Our Province of Ontario and its municipalities and school boards in relation to their expenditures, the tax and revenue sources available to them, their debts and other financial obligations, with a view to determining whether, within the constitutional limitations existing and having regard to present and potential financial requirements, such tax and revenue system is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of Our Province as can be devised,

(b) in connection therewith, to inquire into such other matters as you the said commissioners shall deem advisable,

(c) to co-operate with the Royal Commission on Taxation and with any other bodies of inquiry appointed by other Provincial Governments, and

(d) after due study and consideration, to make such recommendations in accordance with the objectives and terms set out herein as you the said commissioners see fit to Our Prime Minister and Our Executive Council of Ontario.

AND WE DO HEREBY CONFER on you, Our said Commissioners, the power to summon any person and require him to give evidence on oath and to produce such documents and things as you Our said Commissioners deem requisite for the full investigation of the matters into which you are appointed to examine.

AND WE DO HEREBY FURTHER ORDER that all Our departments, boards, commissions, agencies and committees shall assist you, Our said Commissioners, to the fullest extent, and that in order to carry out your duties and functions, you shall have the authority to engage such counsel, research and other staff and technical advisers as you deem proper.

TO HAVE, HOLD AND ENJOY the said Office and authority of Commissioner for and during the pleasure of Our Lieutenant Governor in Council for Our Province of Ontario.

IN TESTIMONY WHEREOF We have caused these Our Letters to be made Patent, and the Great Seal of Our Province of Ontario to be hereunto affixed.

WITNESS: THE HONOURABLE WILLIAM EARL ROWE,
A Member of Our Privy Council for Canada,
Doctor of Laws, Doctor of Social Science,

LIEUTENANT GOVERNOR OF OUR PROVINCE OF ONTARIO

at Our City of Toronto in Our said Province, this second day of May in the year of Our Lord one thousand nine hundred and sixty-three and in the twelfth year of Our Reign.

(Signed) JOHN YAREMKO

BY COMMAND

PROVINCIAL SECRETARY AND
MINISTER OF CITIZENSHIP

Preface

Upon our appointment, we undertook the most extensive inquiry into the taxation and revenue system of the Province of Ontario and its municipalities and school boards that has ever been made. Our terms of reference required us to examine the taxes and revenue sources available to both the Province and its local governments as well as their debts and other financial obligations. We were directed to determine whether, within existing constitutional limitations and with regard to not only present but potential financial requirements, the tax and revenue system is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised. We believe that this Report, subscribed to by all of us without dissent, fulfils the responsibility entrusted to us in accordance with our terms of reference.

As is customary with a Royal Commission of Inquiry, we invited written submissions from individuals and organizations to assist us in our deliberations. We were gratified to receive briefs from one hundred and seven organizations[1] and forty-six individuals,[2] representing almost every economic activity and walk of life.

Later we held twenty-four days of hearings at which we took the opportunity of exploring further the views of five individuals and the representatives of fifty-six organizations who had previously submitted briefs. These hearings proved helpful not only in identifying the problem areas but also in bringing us to the realization of the extreme divergences of opinion concerning the revenue system and proposals for its improvement.

In addition to public hearings, we received invaluable assistance from informal discussions with a host of government, academic, professional and business people possessing special knowledge of matters of concern to us.

We instituted a broad but selective research program in the areas of our interest. For convenience this work was divided into studies of the economic effects of various tax and revenue sources, and studies of the structure and operation of available forms of taxes and other means of raising revenue. While some of this work was done by persons on staff, by far the larger part was entrusted to outside specialists. Of the many studies made for the Committee by those participating in our research program, those listed in Appendix D were considered of sufficient general interest to warrant publication. We wish to make it clear that while we were greatly assisted by those who participated in our research program, the responsibility for the views and proposals contained in this Report is entirely our own.

We did not commission any studies on the structure of the federal income tax which forms the base for Ontario's personal income tax and to which Ontario's

[1]Names listed in Appendix A to this Volume.
[2]Names listed in Appendix B to this Volume.

corporation income tax conforms. The structure of income tax was the subject of a thorough examination by the federal Royal Commission on Taxation and we did not wish to duplicate its studies in view of our other responsibilities.

We have not dealt in this Report with the conclusions and recommendations of the federal Royal Commission on Taxation. First, it was necessary for us to report on the tax and revenue system as it now is, rather than on what it would be in the event that the federal government implemented the recommendations of the federal Commission. Second, at the time that the Commission reported, our own Report had progressed to such a stage that to take the federal findings into consideration would have involved substantial rewriting. Finally, any worth-while appraisal of the implications for Ontario of the recommendations of the federal Commission would have unduly delayed the presentation of our Report.

We were directed in our terms of reference to co-operate with the federal Royal Commission on Taxation and with any other bodies of inquiry appointed by other provincial governments. We are most grateful for the co-operation freely extended to us not only by the commissioners and staff of the federal Royal Commission on Taxation but also by those of the Saskatchewan, Manitoba, Quebec, New Brunswick and Nova Scotia bodies of inquiry.

In Appendix C to this Volume we have noted the names of those who contributed to our work as members of staff and as research consultants and study authors. We are appreciative of the contribution made by each of them. Not to be found in these lists, however, are innumerable officials and staff members of government departments, boards, agencies and committees, at the provincial, local and federal levels, who gave us their utmost assistance. For their unstinted co-operation we express our grateful thanks.

In acknowledging the significant contribution made by staff, we wish particularly to mention the loyalty and indefatigable efforts of our secretary, Hugh R. Hanson, and our four directors, F. Warren Hurst, F.C.A., Dr. J. Stefan Dupré, Dr. Robert M. Clark, and F. Gerald Townsend, C.A. Their services involved the sacrifice of much of their personal life for a long period.

We are also indebted to all of the universities, government departments, professional firms, corporations and organizations who released members of their staffs to us at considerable inconvenience to themselves. We extend our appreciation in this regard especially to the Consumers Gas Company for Mr. Hurst, the Treasurer of Ontario for Mr. Hanson, The University of Toronto for Professor Dupré, The University of British Columbia for Professor Clark, and the firm of Thorne, Mulholland, Howson & McPherson for Mr. Townsend.

Finally, we wish to express our thanks to the Honourable John P. Robarts, the Prime Minister of Ontario, for his patience and his understanding of the time needed to complete the task entrusted to us in accordance with our terms of reference.

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Chapter 1

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INTRODUCTION

1. This Report contains the results of an inquiry in which we, as commissioners, have attempted to fulfil our mandate to examine the taxation and revenue system of the Province of Ontario, its municipalities and school boards. Specifically, our instructions were to carry out this investigation with particular regard to whether "the tax and revenue system is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised". That our undertaking was not an easy one is already evident from the length of time—more than four years—which the preparation of this Report has consumed. The many chapters that follow, occasionally technical and frequently long but always, we trust, pertinent, now confront the reader with his own demanding task: that of appraising the significance of our work.

2. We hope that this task will be eased somewhat if we begin the Report with a discussion of the basic philosophy on which we have reached agreement concerning the role of government in society, including the financing of its activities. We recognize that the personal philosophies that commissioners may

hold will necessarily influence the substance of their recommendations designed to improve the performance of a tax system. Granted that the logical analysis of facts is an indispensable prerequisite to sound conclusions, it remains true that different underlying philosophies may lead, from the same set of facts, to rather different conclusions about what constitutes an optimum tax structure. To put the matter somewhat differently, the soundness of a tax system must be judged not only in the light of its technical performance but also in relation to the particular priorities that one attaches to its various objectives, not all of which may be mutually compatible. For these reasons, we have tried throughout this Report to relate each of our recommendations to the underlying philosophical principles we arrived at in the course of our public hearings, studies and discussions. In the interest of convenience and manageable organization, the present chapter deals primarily with our basic position on taxation, in particular with respect to revenue which is raised and spent by the same level of government. The second chapter will develop our underlying premises with regard to intergovernmental relations, critically important because federal, provincial and local influences are all at work in Ontario; and the third the philosophical consensus we have reached on fiscal policy and public debt.

CONSTITUTIONAL DEMOCRACY AND TAXATION

CONSTITUTIONAL DEMOCRACY

3. The reconciliation of governmental power with individual rights is a problem as old as human society itself. Centuries of evolution, and sometimes revolution, have yielded in much of the western world a mode of governmental organization that is indelibly stamped by the quest for such a reconciliation. This mode of government is commonly called constitutional democracy. Constitutional democracy can assume different forms in different countries, but its most classic types are the parliamentary form as practised in the United Kingdom and Canada, and the presidential-congressional of which the United States is the progenitor and leading example.

4. Whatever particular forms developed to suit their peculiar circumstances, all constitutional democracies share two basic elements. The first, the "democratic" element, attempts to ensure government that is at once responsive and responsible. This it does by providing for periodic competitive elections on the basis of something approaching universal adult suffrage and for constant ready access to governing representatives on the part of the governed, whether as individuals or as groups. The second, the "constitutional" element, consists of built-in practices designed to restrain abuses of government power. The rule of law, the independence of the judiciary, and legislative oversight of the executive are the best known of these restraining devices. At this point, we think it appropriate to develop two philosophical positions to which we wholeheartedly subscribe. The first concerns democracy, the second constitutionalism.

DEMOCRACY AND THE COMMON GOOD

5. It is a long-held axiom that government exists for the promotion of something that is variously called the "common good", the "public interest", the "general welfare"; namely, the well-being, material and otherwise, of its citizens. Democratic governments seek out the "common good" through a variety of processes, the best-known of which are majority vote, the reconciliation of competing group claims, and the quest for consensus through deliberation. However, it is a dangerous and not uncommon fallacy to equate the "common good" with the process through which it is reached. We believe that the "common good" evokes something more than majority rule, the outcome of group conflict or the politics of consensus. This is because one set of policies is not just as good as any other, even though it may be the temporary outcome of the democratic process. Rationality, in the raising and spending of public funds as in other areas, requires the making of difficult choices in the light of the expected consequences of alternative courses of action. It is always distinctly possible that a given choice made by consensus or majority rule will be based on misapprehension or unawareness of the underlying facts and hence will be irrational. Alternatively, it may be that through inertia, a particular minority is allowed to dictate a policy or another minority is placed at such a disadvantage that the basic rights of its members have been prejudiced.

6. The achievement of the common good, then, depends on more than the existence of democratic processes through which policies are devised. It will require from each individual a genuine concern for the needs of others and a consequent refusal to use others simply as a means of promoting his private or public objectives, however laudable these may be made to appear. It will depend, too, on the continuous use of the individual's powers in the maintenance and enlargement of freedom in human relationships. Finally, the common good will always require the orientation of public policy to the general well-being of society rather than to particular interests. When, for example, it is proposed that selective tax concessions be granted to particular sectors of the economy, the proponents will clearly bear the onus for proving that such a policy will best further the public interest. Because the furthering of the common good does represent the fundamental task of democratic government, government's use of the tax system must always be judged in relation to that end.

CONSTITUTIONALISM AND INDIVIDUAL RIGHTS

7. If the basic purpose of democratic government is the pursuit of the common good, constitutionalism exists to safeguard individual rights in the face of any aberrations or deviations that will necessarily arise from time to time as fallible governments press on in their quest for the public welfare. While there is considerable disagreement over the source of individual rights—whether from divine intent, human reason or sociological conditions—there exists remarkable consensus as to their content. We wish to comment briefly on three widely recognized individual rights, not because we necessarily prize them more highly

than others, but because they are particularly relevant to the field of taxation. The first is the right to equal treatment before the law, the second is the right of the individual to earn, own and dispose of private property, and the third is the right of the individual to a minimum level of economic and social well-being—all essential to achieve both the free exercise of constitutional rights and the equitable distribution of the fruits of economic growth.

8. Each of these rights imposes corresponding duties and obligations on the individual. With the right to equal treatment before the law goes the obligation to uphold and respect the law. The right to property carries with it the duty to earn, own and dispose of property with due concern for the welfare of society and the rights of others. And with the right of the individual to a minimum standard of economic and social well-being goes the obligation to make every reasonable effort to provide adequately for his needs.

9. The right to equal treatment before the law is one of the principal reasons for constitutionalism. Restraints against arbitrary and capricious legislation, the independence of the judiciary, legislative checks on executive power, all are designed to secure for the individual this basic right. Tax laws, no less than other kinds of legislation, must be tailored and applied with strict adherence to the letter and spirit of this right. However, both because taxation so intimately affects every individual and because it is heavily dependent on administrative processes, the achievement of strict equity in this field poses an unusually severe challenge. Our concern for the equal treatment of equals in matters of taxation is such that it pervades this entire Report. We consider equity in tax law and tax administration a prime test both of a sound revenue system and, more important, of truly functional constitutionalism.

10. If the capacity of constitutionalism to guarantee equality before the law is exceedingly important in matters of taxation, so too is its ability to sustain and protect the individual's right to private property, a bulwark of human freedom and one of the basic ethical postulates of the competitive market economy. Taxation, which by definition is a compulsory contribution to the support of government, directly affects property rights. Property, of course, is generally recognized as an individual right that is strongly conditioned by the existence of a social order. Hence taxation is not a negation of the right to property and indeed, because it finances the maintenance of the social order, complements rather than contradicts this right. However, because it is a self-evident proposition that arbitrary and inequitable taxation will impinge on the individual's right to property, equity in taxation is a desideratum based no less on his right to property than on his standing before the law.

11. The right of the individual to a minimum level of economic and social well-being is derived not only from humane considerations, but from his right to property and ultimately to liberty. Freedom without bread is an illusion. However, this right has imposed on constitutional government new responsibilities that differ markedly from those necessary to preserve private property and maintain

equal treatment before the law. The latter age-old rights emphasize the limits within which government must operate. But the right to a minimum level of economic and social well-being, to be effective, requires direct action by government. The proper scope of such action by no means commands general understanding or agreement, although it is clear that measures which are unduly adverse to economic growth must be avoided. Government, therefore, should direct its economic policies primarily to promoting an environment in which the full potential of the economy will be realized. This involves ensuring opportunities for the full and productive employment of a continuously expanding labour force. As an important adjunct, government must also develop social welfare programs for those who are prevented by circumstances beyond their own control from providing adequately for their own needs. As we show subsequently in our analysis of the burden of public expenditures and revenues, the present pattern of government finance in Ontario has produced, through a combination of social expenditures and progressive taxation, a significant redistribution of income. Such a process of redistribution is, of course, not an end in itself but is deemed to contribute to both equity and economic efficiency. It reflects a widespread belief that a less uneven distribution of income than that produced initially by the market mechanism is a legitimate aspect of economic policy.

CONSTITUTIONAL DEMOCRACY AND SOCIETY

12. Constitutional democracy enables individuals to seek out collectively their common good through a government that is under regular and recognized restraints. While we have no doubts about the superiority of constitutional democracy as a mode of government, we also believe that governments, however constitutional and democratic, should not have an unlimited sphere of activity. Surely the permissible scope of government does not extend to all aspects of social organization. The market economy, with its private incentives and with the opportunities it extends to all to exercise responsibility in the use of property, is essential for the most efficient production and distribution of goods and services. Business firms, labour unions, private associations, local governments, all are vital components of efficiency and freedom.

13. A governmental sphere that extended to every aspect of human life would be no less a monolith by virtue of its constitutionalism and democracy. As John Stuart Mill noted over a century ago in his celebrated essay "On Liberty":

> The . . . most cogent reason for restricting the interference of government is the great evil of adding unnecessarily to its power. Every function superadded to those already exercised by the government causes its influence over hopes and fears to be more widely diffused, and converts, more and more, the active and ambitious part of the public into hangers-on of the government, or of some party which aims at becoming the government. If the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the government; if, in addition, the municipal corporations and local boards . . . became departments of the central administration; if the employés of all these different enterprises were appointed and paid by the government and looked to the government for every

rise in life; not all the freedom of the press and popular constitution of the legislature would make this or any other country free otherwise than in name.[1]

14. The key phrase in the above quotation is that which refers to the evil of "adding *unnecessarily*" to the power of government. In the economic development of their country, Canadians have fortunately at all times adopted a pragmatic approach to the role of government in economic affairs, a role that since earliest times has been substantial. Whether as the guarantor of the institutional framework within which private enterprise must operate, or in initiating public policies designed to influence strongly the prevailing economic climate, or in directly producing goods and services for its citizens, or in exercising its responsibility for regulating the use of private property in the public interest, government must continue to exercise a pervasive influence if the country's economic objectives are to be attained. But however beneficent the role of government, it is surely dangerous to suppose that there exist no limits on its encroachments. Excessive concentrations of power are no less to be feared when they involve big government than they are when they involve big business, big labour or big agriculture.

15. At this point we believe it important to single out a substantial advantage that accrues to this country from its multi-level governmental structure—federal, provincial and local. We regard the existence of a plurality of governmental levels, each with its own sphere of responsibility, as conferring singularly effective safeguards against the abuse of power. A rational distribution of revenue sources and expenditure functions among several levels of government, each strong and viable, is one of the surest antidotes to monolithic public power. The basic principles that should underlie such a distribution form the substance of the next chapter.

CONSTITUTIONAL DEMOCRACY, ECONOMIC POLICY AND TAXATION

16. To say that there are limits to the appropriate scope of government is not to deny that government must play a critically important role in society, more particularly in economic life. Such a denial would surely fly in the face of reality. Indeed, there are at least five major economic objectives that are so generally recognized as falling within the purview of government that an enumeration is almost superfluous. These objectives can be summarized as:

(1) *a high and stable level of employment*, which is not only essential to the most efficient use of available productive resources but is a basic foundation of human welfare and dignity;

(2) *reasonable stability of the general price level*, a fundamental condition for economic efficiency and highly important to the achievement of equity and to the protection of savings;

(3) *economic growth*, defined as a rising per-capita annual production of goods and services, a process vital to continuing improvement in the

[1]John Stuart Mill, "On Liberty", *Utilitarianism, Liberty and Representative Government*, London: Everyman's Library, 1910, p. 165.

standard of living—improvement that makes possible wider choices over the entire range of public and private goods and services;

(4) *an equitable distribution of income*, necessary not only to provide incentives and to ensure the basic right of all individuals to a minimum level of economic and social well-being, but also to prevent undue concentrations of private economic power and to lessen the severity of cyclical swings in the level of economic activity;

(5) *the promotion and regulation of competition*, with a view to furthering the healthiest possible market economy.

17. These objectives are the legitimate concern of government because it has become clear that the market mechanism, *unaided*, cannot be relied upon to achieve them in satisfactory measure. In particular, the private market economy by itself is clearly incapable of assuring stability in employment and price levels and of achieving an optimal and balanced rate of growth. Nor does the market economy of itself guarantee an equitable distribution of goods and services. Some services, such as education, highways, police and fire protection, confer such general social benefits that they must be provided collectively; others, such as welfare programs, are necessitated both by humane considerations and by the need to maintain a high and stable level of aggregate consumption. Finally, the susceptibility of the private economy to monopolistic influences, whether in industry, labour, agriculture or elsewhere, means that its effective functioning must be the constant concern of government.

18. In the light of what are necessary objectives of economic policy in all constitutional democracies, the tax system takes on a particular degree of importance. Taxation is, of course, necessary as the means of financing all but those very few government services—electricity, for example—that can be priced like any private good and charged directly to the user. But in addition taxation, because it influences the distribution of income, the level of demand for goods and services, and the allocation of resources between public and private uses, can be an invaluable component of policies designed to secure full employment, price stability and balanced growth. The potential economic effects of the tax system therefore make its functioning a matter of special concern.

19. Taxation, to be sure, is but one tool that governments utilize in their quest to meet the economic objectives of society. Public expenditures, debt management, monetary policy and regulatory legislation are other tools that, along with taxation, are directed to the attainment of optimal economic policies. The problem of integrating these various tools forms the subject of a later chapter. In the context of the present discussion, however, we wish to suggest that the objectives of taxation may be described either in the *immediate* sense—that of raising the revenues necessary for discharging the responsibilities assumed by or allocated to a particular level of government—or in the *ultimate* sense—that of furthering the basic economic objectives of the community. It is in the light of these ultimate objectives that the performance of the tax system must in the end be assessed.

20. Whether in terms of its immediate or its ultimate objectives, a sound tax system should possess certain important characteristics. The process of identifying and developing these characteristics is the task of the remaining sections of this chapter. But there is one characteristic in particular that in our view rises above all the rest, both because a majority of the remaining characteristics flow from it and because it goes to the core of constitutional democracy. This characteristic is equity.

EQUITY IN TAXATION

THE PRINCIPLE OF EQUAL TREATMENT OF EQUALS

21. The basic rule of equity in taxation is the principle of equal treatment of equals. This principle is basic because it is derived from the equality of individuals before the law, which we have already referred to as a fundamental right of man. Furthermore it is applicable to all types of taxation since all taxes are ultimately paid by the individual. To be sure, a substantial proportion of taxes are paid in the first instance not by individuals but by incorporated enterprises which have a legal identity apart from their owners. In the long run, however, corporations are simply intermediaries for collecting revenues from individuals, whether as consumers, owners or employees. In exceptional circumstances, a tax may be shifted in its entirety to the consumers of a firm's product, or to the owners of the enterprise, or to the suppliers of labour and other resources employed by the business. More commonly, the tax burden will be shared among these interests, the proportion of sharing being related to market conditions and to the period of time within which shifting takes place. Whatever the case, the upshot is that since all taxes are ultimately paid by individuals, the principle of equal treatment of equals is always a relevant consideration and its application should look beyond the entity on which any tax is first imposed to the individuals on whom the burden of tax finally rests.

22. In an imperfect world, it is quite obvious that the principle of equal treatment of equals can never be realized fully. Even if one could assume general agreement as to what constituted the total fulfilment of this principle, other objectives might conflict with equity, objectives whose achievement was deemed by society to warrant marginal sacrifices in equity. Then too, our limited knowledge of tax shifting means that we cannot pretend to know precisely the incidence or ultimate impact of many taxes. To recognize these impediments is in no way to deprecate equity but is simply to face up to the practical difficulties that beset its achievement. Such recognition also points to at least one significant conclusion, namely that over-reliance on taxes whose ultimate burden is difficult to trace is highly questionable from the standpoint of equity.

23. In taxation, the principle of equal treatment of equals has two broad dimensions. First, it is a bulwark of protection against arbitrary and capricious treatment by tax authorities. Second, it provides the principal cornerstone on the basis of which taxes can be justified.

24. The first dimension of the principle of equal treatment of equals requires little elaboration. Here it serves as the master guideline of tax legislation and administration. In legislation, the principle demands that the over-all classification of taxpayers into categories be reasonable and just and that all taxpayers within a given category be treated equally. Thus, if it is decided that a tax is to be based on retail sales, the array of items subject to tax must be clearly defined and the rate or rates must be assessed uniformly. Then in administration, the principle dictates both the unbiased handling of taxpayer affairs on their merits and the existence of appropriate appeal procedures. Appeal must be reasonable in time and in cost to the taxpayer, and unimpeachable in terms of the competence of the persons deciding tax cases, both on questions of fact and on questions of law. It goes without saying that while the equal treatment of equals in legislation and administration is easy to elaborate in theory, the application of the principle can be realized only through constant public vigilance and governmental effort.

25. The second dimension of the principle of equal treatment of equals, which involves the justification of taxes, is like the first in that it is difficult to achieve in practice, but unfortunately unlike the first in that its elaboration in theory is highly complex. We can at least, however, begin on a simple note. It is this: from the premise that equals should be treated equally, it is generally conceded that unequals should be treated unequally. At this point it will be observed that two time-honoured principles apply to the unequal treatment of unequals; namely, the *principle of benefits received* and the *principle of ability to pay*.

THE PRINCIPLE OF BENEFITS RECEIVED

26. Under the principle of benefits received, equity is interpreted as requiring that the burden of taxation be allocated among taxpayers in relation to the benefits each derives from the enjoyment of public services. The benefit principle is accordingly derived from a basic rule of the private sector of the economy: that goods and services should be paid for by their users. Thus it provides, at least in theory, a means of determining the aggregate dimensions of government activity in providing goods and services. The benefit principle was widely accepted by political theorists in the eighteenth century, and supported by Adam Smith in his *Wealth of Nations*. It was attacked by John Stuart Mill a century ago as imposing excessive burdens on the poor, but has enjoyed a vigorous renaissance in recent decades.

27. Wherever it is possible to identify unmistakably the beneficiaries of a particular public service, the benefit principle leads not to a tax but to the charging of a price or fee, which makes the relationship between the government and the users of its services virtually identical to that between participants in private market transactions. The fee may cover the entire cost of providing the service, or alternatively, where the service is deemed to provide social as well as individual benefits, it may cover a portion of the costs incurred. An example of the latter instance is found in the charging of premiums for hospital care.

28. In theory, the most useful interpretation of the benefit principle is that the cost of providing a public service should be allocated among individuals according to the marginal (additional) benefit that each receives from that service. A willingness by the beneficiaries to support a new service on this basis of cost sharing will then reflect the fact that they have equated the marginal benefit from the service in question with the marginal sacrifice involved in paying for that service. At this point an optimal allocation of resources between the individual's public and private wants will have been achieved. In practice, it is impossible to apply the benefit theory with the above degree of precision because marginal benefit to each beneficiary cannot be measured directly. The government, therefore, applies the principle in crude form by allocating the total cost of a service among the beneficiaries in accordance with some arbitrary criterion—for example, real property frontage—in proportion to which each individual is deemed to benefit. At this point, of course, the government is levying taxes, not charging fees.

29. The benefit theory is an appropriate justification of taxation if the principal aim of the financial arrangement is to provide public goods and services roughly in accordance with the dictates of the market-place, and if the government does not wish to modify the existing pattern of income distribution in society. Frequently, however, modification of the existing distribution of income is a particular objective of government policy—for example, in the financing of welfare programs. Here the benefit principle is clearly inappropriate. It will likewise be inappropriate where society may wish to subsidize the public treasury by increasing the cost of certain activities that may lead to abuse or inefficiency—the consumption of alcoholic beverages, for example.

30. With different degrees of emphasis, the benefit principle can be used to justify a number of taxes in whole or in part. It is often applied in defence of the real property tax, especially in so far as this tax is used to finance services thought to be more or less directly related to the ownership or occupancy of real property. It forms the basis for special assessments by municipalities and is frequently used by various levels of government in setting licence charges. An element of "benefit" is even to be found in the personal income tax, as for example, when questions arise concerning the fairest means of taxing individuals who live in one jurisdiction but earn their livelihood in another. Again the benefit principle is particularly relevant to taxes on gasoline and diesel fuel, whose consumption by motor vehicles, which depends on speed, weight and distance travelled, is an excellent index of demand for highway services.

31. It is frequently advocated that motor vehicle revenues, because they conform so closely to the benefit principle, be earmarked and funded, that is to say that they be segregated in a special account distinct from the consolidated revenue fund and used only to finance road and highway expenditure. The basic advantage of earmarking and funding is that this practice permits a close identification of particular receipts and disbursements, and we recognize two general circumstances in which it is desirable. The first is where government wishes to use the price

mechanism in deciding how much to charge for a particular service. A municipality, for instance, may wish to make its off-street parking business self-supporting, and here earmarking and funding will be appropriate. The second is where, in connection with particular social insurance programs, the government wishes to emphasize the relationship between public benefits and the cost of providing them. In both circumstances, the underlying benefit principle is readily apparent.

32. But we do not believe that the presence of a strong benefit element, as in the case of motor vehicle revenues, of itself justifies earmarking and funding. Indeed, we are of the opinion that the disadvantages of earmarking and funding generally outweigh the advantages. For one thing, this practice may introduce undue rigidity into the over-all pattern of public finance by handcuffing revenues to a specific expenditure program. Furthermore, far from ensuring effective control over expenditure, earmarking and funding may mislead legislators if funded revenues do not fully cover the costs of a particular service. Revenues derived from taxes based on the benefit principle provide a guide to what is an appropriately corresponding level of expenditure, and the latter in turn provides a general index of what the amount of tax should be. The practice of earmarking and funding is not necessary to achieve this objective.

33. We are convinced that taxation according to the benefit principle has an important role in our fiscal system. Specifically, we are of the opinion that taxes based on benefit are desirable *first*, when the benefits and beneficiaries of government expenditure programs can be identified relatively clearly; *second*, when a modified distribution of wealth and income is not a policy objective; and *third*, when the imposition of benefit-related charges on the users or beneficiaries of a service will not result in an inefficient use of that service.

34. It is evident that the above conditions restrict the application of benefit-related taxation to a portion of the revenue-raising activities of government. Accordingly, we now turn to a consideration of the principle of ability to pay, the second approach to achieving equity in taxation, and the major pillar of most modern revenue systems.

THE PRINCIPLE OF ABILITY TO PAY

35. Under the principle of ability to pay, equity requires the equal treatment of persons possessing the same capacity to pay taxes. Ability to pay is appropriate for financing that great portion of government expenditure where it is either impossible or inappropriate to allocate cost among taxpayers in accordance with benefits received. The application of the ability principle, however, requires agreement on some generally accepted criterion or criteria by which capacity to pay taxes may be measured.

36. Under the early versions of the ability-to-pay principle, in sixteenth-century Europe and later in North America, wealth or property was considered the most appropriate index of tax-paying capacity. A little later, consumption or

spending was singled out as most suitable. Thus Thomas Hobbes, the seventeenth-century English philosopher, stated that equity required that people be taxed on the basis of what they used up of their country's product, not on the basis of what they contributed to it. In our present generation, Mr. Nicholas Kaldor of Cambridge University is perhaps the foremost exponent of an expenditure tax, regarding consumption as an equitable criterion of ability to pay.[2] As a matter of general practice, with the increase in industrialization of the past century, income has become widely regarded as the best index of tax-paying capacity.

37. The case for income as a better index of ability to pay than either consumption or wealth rests on the fact that income is a more comprehensive index than the other two. Income, after all, comprises both consumption *and* saving, or increases in wealth, during a given time period. Against this it can be argued that income is inferior to consumption precisely because it is too comprehensive. Because an income tax applies to saving, it reduces the capital which an individual can invest, and the effect is compounded when, at a later period of time, the same individual will be taxed again on the interest income from his reduced investment. But this viewpoint is far from unassailable. The counter-argument is that interest on accumulation is an additional accretion to income and that the tax thereon is therefore a new tax on new income. In the words of a leading contemporary authority, "If this view is taken, it is not the income tax that involves 'double taxation', but the consumption tax that involves undertaxation of the saver."[3] It seems fair to conclude that the extent to which society taxes consumption as opposed to income will be a function of that society's desire to encourage saving.

38. By contrast to wealth, the taxation of income recommends itself again in that income is more universal than wealth and a better index of an individual's standard of living. Many Canadian families enjoy relatively high incomes and consequently high living standards, and yet possess relatively little wealth. On the other hand there are many others, especially older persons owning homes, businesses or farms, who may possess considerable amounts of wealth but relatively little income and a very modest standard of living. The taxation of wealth can none the less be viewed as a useful, indeed necessary, supplement to the taxation of income. Income by definition fails to take into account changes in the capital value of savings, and hence does not fully reflect changes in an individual's economic position from time to time. It is thus deemed desirable in most countries to tax wealth—for example, when increases in the value of assets are realized through sale, by means of a capital gains tax, or, when assets change hands through gifts or successions, by means of gift and death taxes.

39. We concur in the widely accepted practice that takes income as the prime index of tax-paying capacity. At the same time, and for the reasons discussed above, we believe that wealth and consumption must be essential components of a tax system based on a notion of balanced tax-paying capacity. In this connection

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[2] See Nicholas Kaldor, *An Expenditure Tax*, London: George Allen & Unwin, Ltd., 1955.

[3] Richard A. Musgrave, *The Theory of Public Finance*, New York: McGraw-Hill Book Company, 1959, p. 162.

we wish to stress that the allocation of the tax burden among individuals or families is accomplished through the aggregate effect of all taxes taken together and not by any one tax. Furthermore, as will be demonstrated in a later chapter, to produce over-all equity, government fiscal operations must take into account the differential impact of public expenditures on individual incomes as well as the impact of taxes.

40. It has been only in the twentieth century that broad support has developed for the idea that to conform to ability to pay, a tax system must be progressive. Individual taxes in fact differ greatly in the degree to which they conform to this notion, but the idea in question is most effectively embodied today in the personal income tax. The personal income tax generally incorporates basic exemptions that recognize minimum income standards below which no tax should be levied. These exemptions can be tailored to recognize the need for minimal levels of income and the existence of different family responsibilities for maintaining dependants. Above the basic exemption level, rates of personal income tax can be made to vary in increasing proportion as the level of income rises. Thus it is that the personal income tax is widely acclaimed as the tax most in accord with the principle of ability to pay.

41. While the personal income tax may indeed be the most equitable tax in terms of tax-paying capacity, it must be emphasized that this is far more a conclusion of social judgment than of scientific principle. Admittedly, a degree of support for taxation at progressive rates can be drawn from the economist's law of diminishing marginal utility. The most concise statement of this law is probably that of the celebrated Alfred Marshall, who, near the turn of the century, noted that "the marginal utility of a thing to anyone diminishes with every increase in the amount of it he already has."[4] In other words, the increased satisfaction (marginal utility) that any individual obtains from owning or consuming each additional unit of any commodity or service diminishes according to the number of units that he already owns or has consumed.

42. The operation of the law of diminishing marginal utility is readily evident and a matter of common sense. In the case of milkshakes and hot dogs, for example, the diminishing utility of consuming successive units within a given time period is clearly apparent, for the limited capacity of the human stomach causes the law to operate quickly. With other items of consumption, and particularly with intangibles such as travel and education, many successive units can be consumed over a long time period before the law will gradually begin to assert itself. But assert itself it will; among academics, for instance, a second earned Ph.D. is a rarity.

43. In the realm of taxation, the law of diminishing marginal utility is relevant in so far as it applies to successive marginal units of income. Income is either consumed or saved, and saving can be defined as the forgoing of present consumption. Accordingly, it can be argued that since all income is eventually

[4]Alfred Marshall, *Principle of Economics*, 8th edition, New York: The Macmillan Company, 1920, p. 93.

exchanged for goods and services, the marginal utility of income will decline, reflecting the decreasing marginal utility of these goods and services. If this is so, it follows that an individual will sacrifice less of his well-being (utility) in paying a tax of 1 per cent on an income of, let us say, $10,000 than on an income of $5,000. Hence if ability to pay is regarded as equality of sacrifice, a taxpayer's contribution should vary more than proportionately as his income changes.

44. At least two noteworthy criticisms can be directed against linking progressive taxation with the diminishing marginal utility of income. The first is that such a linkage assumes that the utility of the successive dollars of a given income declines equally for all, whereas in fact there exist great differences in the satisfaction derived by different individuals from succeeding units of income. The second is that the actual rate at which the marginal utility of income declines cannot be known and hence diminishing utility provides no guide as to what is an appropriate rate of tax progression.

45. The first criticism is entirely valid, but in our view it in no way contradicts the proposition that the tax-paying capacity of an individual increases faster than his income, and that society is therefore entitled to make a judgment on this basis. In the words of Dr. Richard Goode of the Brookings Institution, such an assertion has appeal

> because it is plausible to suppose that people first satisfy their most urgent needs and then use additional income to meet less urgent wants and because, in civilized communities, public or private assistance is given to those who lack the means to provide for themselves the items that are customarily bought with small incomes. It is widely agreed, even by severe critics of extensive progression, that people below a certain level of poverty should not be expected to pay taxes. Acceptance of a personal exemption necessarily implies endorsement of at least a limited degree of progression, since tax liability will rise faster than income immediately above the exemption, even if rates are not graduated. In my judgment, the reasoning that approves this level of progression can also justify much wider progressivity. To deny this would imply that there is a sharp discontinuity in the sacrifices made in paying taxes or in the social importance of successive increments of income, consumption, or wealth. It seems more plausible to suppose that the private and social importance of additional units diminishes gradually over a very wide range.[5]

46. We likewise support the second assertion that the slope of marginal income utility schedules cannot be known. We would point out that it is simply impossible to "measure" utility in an absolute sense, in which case it becomes obvious that the notion of diminishing marginal utility provides no guide to an appropriate degree of rate progressivity. We accept this as a fact. But surely this notion need not have mathematical precision to support the principle of a progressive income tax. To quote Dr. Goode once more,

> If this seems distressingly imprecise, it is because ability to pay is being regarded as the name of a numerical formula rather than a term of ethics or politics, as it should be. Ability to pay is no more imprecise than concepts

[5]Richard Goode, *The Individual Income Tax*, Washington, D.C.: The Brookings Institution, 1964, pp. 18-19.

> such as the national interest, general welfare, due process of law, morality and duty. It is as susceptible of objective valuation as are intelligence, social adjustment, prudence, and many other personal characteristics.[6]

47. While we strongly support the principle of ability to pay as a cornerstone of sound taxation and believe that income provides the most reliable but by no means sole index of tax-paying capacity, we readily admit that the principle and the so-called "law" from which it is often derived provide no guide as to the most appropriate rate of progression. The ultimate sanction for any given pattern of tax progression is the prevailing consensus of ethical judgment as to what constitutes a socially desirable distribution of the nation's income and wealth. Without undertaking to probe the depths of this consensus, we think it appropriate at this juncture to suggest two guidelines that we believe are important considerations on making social judgments on progressivity. The first is that the concept of ability to pay, rather than dictating the progressivity of any given tax, embodies instead the more general notion that the tax system should be moderately progressive *as a whole*. The second is that government expenditures, which themselves affect the relative position of individuals, should be considered along with taxes in determining what constitutes over-all equity.

48. We attempt to show in a later chapter that different taxes place rather different burdens on individuals and families with different levels of income. Thus property taxes, motor vehicle fuel taxes and retail taxes, to take but a few examples, each absorb rather different proportions of family income, depending on the size of that income. Such taxes, of course, cannot take into account varying personal and financial circumstances. This suggests to us that the personal income tax, which can be tailored to take relatively precise account of such circumstances, has a particularly critical role in helping to achieve equity and that the burden of the other taxes on individuals and families provides a rough but useful guide to the desirable degree of progressivity in personal income tax rates.

49. A truly comprehensive guide to the setting of personal income tax rates will take into account the impact on the individual of government expenditure as well as of other taxes. It is significant that progressivity first received great emphasis some decades ago when it was thought that an equitable distribution of income should be accomplished almost entirely through the tax mechanism. However, during the last quarter-century, both in Canada and elsewhere, the distribution of income has been greatly affected through the expenditure side of fiscal operations, and in particular through government transfer payments such as family allowances, unemployment insurance and old age pensions. This range of activity has been continuously broadened and, in addition, government spending on goods and services further alters the distribution of income. Under these circumstances, to ignore the effects of government spending will be to distort seriously the distribution of income on which judgments of tax progressivity should be made. Indeed, when the impact of all government fiscal operations—that is to say, taxes and expenditures—on the individual are taken into account, it may well be that

[6] *Ibid*, p. 19.

considerations of equity will call for personal income tax rates somewhat more moderately progressive than at present.

50. In closing our discussion of equity in taxation, we wish to emphasize two points. The first is that whether it is embodied in the principle of benefits received or in that of ability to pay, equity relates solely to the individual or family and has no meaning except with regard to those persons on whom the burden of taxation ultimately falls. In particular, equity provides no basis for the taxation of corporate income, the rationale for which is discussed at a later stage of this Report. Our second point is that no tax system can be considered equitable unless it rests in part both on ability to pay and on benefits received. Benefits received is a key element in determining the optimum total of taxation, and therefore the appropriate distribution of resources between public and private uses. Ability to pay, on the other hand, in taking into account the equitable distribution of income, is an indispensable guide to the proper allocation of the burden of financing government.

OTHER PRINCIPLES OF TAXATION

51. Equity is the prime, but by no means the sole, characteristic of a good tax system. After due consideration, we have selected no fewer than nine principles which, together with equity, should form the basis of a sound revenue structure. Some of these are derived from considerations of equity, others are prompted by the need for efficiency. We enumerate them here for the sake of convenience and will proceed to discuss them in turn. They are:

1. adequacy,
2. flexibility,
3. elasticity,
4. balance,
5. neutrality,
6. certainty,
7. simplicity,
8. convenience, and
9. economy of collection and compliance.

ADEQUACY

52. This principle requires virtually no explanation. It is a self-evident proposition that to be satisfactory, a tax system must be capable of providing the flow of funds that a government deems appropriate in any given period. We note, however, that the principle of adequacy can become highly relevant when the relative merits of grants and taxes are discussed in connection with provincial and municipal revenue systems. This matter will occupy our attention in the next chapter.

FLEXIBILITY

53. By flexibility is meant that a tax system should be so constituted that government, by discretionary action, can readily increase or decrease the flow

of tax funds in response to changing circumstances, which can stem either from considerations of expenditure requirements or of economic policy. Obviously, some taxes, such as those on property and on personal income, are more flexible than others, in that rate alterations can be graded so as to accommodate small as well as large changes in revenue requirements. The principle of flexibility can thus be deemed to be satisfied if a revenue system is comprised in part of flexible taxes.

ELASTICITY

54. The principle of elasticity is closely related to those of adequacy and flexibility. This principle requires that a revenue system be composed in part of taxes whose yields respond closely to changing economic circumstances without deliberate changes in rates. It is important that the principle be fulfilled for two reasons. First, elasticity enables governments to meet rising service demands occasioned by economic growth without the disturbance of frequent rate changes. Second, elastic tax yields are an important adjunct of fiscal policy in that they can serve as automatic stabilizers, leaving a greater proportion of income in the private sector in times of adversity and dampening inflationary pressures in times of prosperity.

BALANCE

55. This principle is to be found in certain textbooks under such names as "multiplicity" or "plurality", but we have chosen the term "balance" in order to emphasize the kind of plurality that a tax system should possess. The need for a balanced plurality of taxes is grounded partly in the requirements of flexibility and elasticity, partly in equity, and partly in administrative considerations. As to flexibility and elasticity, it is readily apparent that some taxes are more flexible, others more elastic. Thus the property tax is relatively unresponsive to economic change but highly flexible, whereas consumption taxes are rather more elastic but relatively inflexible. A tax system should therefore have a sufficient multiplicity of taxes to take account of these characteristics. In the domain of equity, if a tax system is to conform to the basic rule of equal treatment of equals, it must not only be able to take differing individual situations into account but also be virtually foolproof in terms of evasion. If we may quote the Right Honourable Hugh Dalton, a former Chancellor of the Exchequer of the United Kingdom,

> Anomalies as between persons, which are liable to arise under a single tax, are liable to be corrected under a multiplicity of taxes. And evasions, which may be comparatively easy under a single tax, are more readily detected under the check and counter-check which a multiple tax system may provide. Thus valuations for death duties and the previous income tax returns of the deceased may be checked against one another.[7]

56. Multiplicity, then, is an important key to elasticity, flexibility and equity. But it is not an end in itself. For one thing, the number of taxes that reflect

[7]Hugh Dalton, *Principles of Public Finance*, 4th edition, London: Routledge & Kegan Paul Ltd., 1954, p. 31.

elasticity, flexibility and equity is limited. Furthermore, to quote Mr. Dalton again,

> . . . though a multiple tax system is generally preferable to a single tax system, too great a multiplicity is not desirable. Advocates of "broadening the basis of taxation" are to be distrusted. Of this fellowship was [one] who said, "if I were to define a good system of taxation, it should be that of bearing lightly on an infinite number of points, heavily on none." But there is not necessarily any less total pressure under such a system for, as mathematicians know, the sum of an infinitely large number of infinitely small weights may be greater than a single moderate weight. Moreover, a large number of taxes, however small, usually involves a large cost and a large amount of vexation in collection.[8]

To this we wish only to add the thought that too great a multiplicity of taxes may dissipate altogether taxpayer consciousness of the cost of government, consciousness that is certainly desirable in a constitutional democracy. Thus we subscribe only to that multiplicity of taxes consistent with flexibility, elasticity, equity and sound administration—in short, to a principle of balance.

NEUTRALITY

57. The principle of neutrality is directly related to the objective of efficiency in the use of the human and material resources of society. We do not suggest that, in order to be neutral, a fiscal system must exert no influence on the economic behaviour of persons or businesses. When the fiscal operations of all levels of government in Canada involve, as they do, almost one-third of gross national product, it is clear that no such thing is possible. Our approach to neutrality is rather in terms of applying the rule of least price distortion in the choice of taxes. If one assumes that the pattern of relative prices determined by competitive market forces tends to encourage the most efficient allocation of the nation's resources, then to the extent that a tax system minimizes its distortion of relative prices, it minimizes its interference with productive efficiency. An important implication follows, namely that the more general a tax, the less it will normally interfere with individual choices on the part of producers, resource owners and consumers. From this point of view, such general taxes as those on income and retail sales are to be preferred to selective excise taxes applied to a narrow range of commodities.

58. Understood in terms of least price distortion, the principle of neutrality is violated if consumers are taxed on their expenditures for goods but not for services. The principle is likewise violated if governments provide tax concessions in order to induce particular firms or industries to locate in areas where, in terms of the most efficient use of resources, they would not otherwise go. In its broad context, however, the efficient use of resources involves not only the private costs incurred by a firm but also the social costs arising from its operation in a particular location. Again, neutrality will be violated where the revenue system imposes heavier taxes on some legal forms of business organization than on others. To be neutral, the tax system should provide similar treatment for individual proprietors, partnerships, co-operatives and all forms of corporate enterprise.

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[8] *Ibid.*, p. 32.

We are, of course, fully aware of the enormous practical difficulties involved in providing such neutral treatment.

59. We do not wish to argue that neutrality is a principle of taxation that should be followed under any and all circumstances. It is appropriate only when economic efficiency is a prime criterion of policy. On frequent occasions, governments are legitimately more concerned with other goals and will consciously depart from neutrality in order to further these objectives. What should be recognized, however, is that where tax neutrality is abandoned, the efficient allocation of resources, in the short run at least, will be impeded.

CERTAINTY

60. The principle of certainty as to the time, manner and amount of payment of tax has been advocated for centuries. Adam Smith regarded a small degree of uncertainty as a much greater evil than "a very considerable degree of inequality",[9] in that it subjected the taxpayer to the arbitrary decisions of the authorities. A further argument for certainty is the desirability, in an era of high government expenditure, that the citizen be well informed of his tax burden so that he may relate it to the benefits he derives from public services. If the individual is not well informed, he may make decisions about government spending that might have been different had he been aware of the facts. A particular risk is that being only dimly aware of his total tax burden, he will underestimate the cost of the public services with which he is provided. This is particularly likely where many of his taxes are hidden in the prices of the goods and services he purchases, rather than imposed upon him directly.

61. If the principle of certainty is valid, and we believe that it is, then those direct taxes that cannot be shifted, or that can be shifted only to a limited degree, are superior to any taxes that can be hidden or easily shifted. On this basis, the personal income tax is superior to corporation income tax which sooner or later must be borne by individuals as consumers, shareholders or employees. Similarly, a visible retail sales tax is superior to a consumption tax levied at the manufacturer's level. Again, as it affects the relative merits of subsidies or tax concessions as forms of government financial assistance. the principle of certainty favours subsidies, for their costs are more readily ascertainable to government and public alike than are the costs of tax concessions or exemptions.

62. Finally, the principle of certainty should apply with force to the content of tax statutes. At the very least, no tax law should be written in such a way that it contains provisions that the government either cannot or will not enforce effectively. An obvious example of such a provision can be found in the Ontario Retail Sales Tax Act which stipulates that residents of Ontario are liable for sales tax on goods bought outside but transported into the province for their use. To the extent that such a requirement is known to be the law but is not enforced, the

[9] Adam Smith, *The Wealth of Nations*, Modern Library edition, New York: Random House, 1937, p. 778.

reputation of the government as a law-maker, to say nothing of respect for the law itself, is imperceptibly lowered in the public esteem. The principle of certainty demands statutes that are at once enforceable and enforced.

SIMPLICITY

63. We wish to comment only briefly on the relation between certainty and simplicity. The principle of simplicity will lend strong support to certainty provided it is applied with care. The point is, of course, that indiscriminate striving for simplicity will yield statutes that leave too much unsaid and hence that can only be applied with a wide scope for administrative discretion—discretion that will unduly impinge on certainty. Again, undue simplicity may make it impossible to recognize the varying circumstances of particular taxpayers. Hence the principle of simplicity must be considered as dictating the greatest clarity within the limits set by certainty and equity. It should be understood that after every effort has been made to apply the principle of simplicity in the sense indicated above, certain taxes, notably those on personal and corporate income, will be embodied in statutes that are irreducibly but still appreciably complex.

CONVENIENCE

64. The principle of convenience is highly significant in relation to the time, place and manner in which a taxpayer is called upon to discharge his obligations. It is in accordance with this principle that municipalities have developed instalment systems for the payment of property taxes and have, in some instances, permitted payment through chartered banks and other specified places of business. The principle of convenience is not simply a matter of good public relations. Observance of this principle redounds to the direct advantage of government by simplifying compliance and by reducing costs. With regard to the latter, there can be no doubt that the deduction of income tax at the source, a practice introduced by the Dominion during World War II, has greatly simplified government fiscal operations by increasing the speed of cash flows and hence reducing the need for short-term borrowing.

ECONOMY OF COLLECTION AND COMPLIANCE

65. The principle of economy applies both to the costs incurred by government in collecting taxes and to those incurred by the taxpayer in complying with his tax obligations. With regard to compliance, we have later in this Report devoted considerable effort to devising appeals procedures that are within the financial means of all taxpayers. We wish to point out, however, that the principle of economy, especially in relation to the costs incurred by government, dictates not the lowest possible cost but the lowest cost consistent with equity and effective enforcement. Thus it is blatantly false economy for governments to employ unqualified assessors at rock-bottom rates of remuneration. Such practices can result only in inefficiency, discrimination, and multiplying appeals and hence increasing the cost of taxpayer compliance. Properly understood, the principle of economy requires the employment of competent public servants in sufficient numbers.

CONFLICTS OF TAX PRINCIPLES

66. It is the better part of wisdom to recognize that among the many tax principles that we have outlined there exist numerous occasions for conflict. Decisions concerning the most appropriate mix of taxes will accordingly require some consensus as to which principles should be given priority, a consensus that even among responsible and reasonable people may be difficult to formulate. Thus thorny problems may arise because of differing interpretations of the principle of ability to pay, or because this principle conflicts with benefits received or with neutrality or with simplicity or with economy of collection and compliance. Then too, it may be that convenience or the reasonable opportunity to appeal—an essential aspect of equity—conflicts with economy. Whatever the nature of the conflict, we wish to stress that among all the principles that we have discussed, those relating to equity are of fundamental importance in the formulation of tax policy. This is by no means to deny that in specific circumstances equity may legitimately be subordinated to other principles, but where such is argued, we place the burden of proof squarely on the proponents of the case.

TAX PRINCIPLES AND SOCIAL POLICY

67. We wish to close this chapter by noting that there will be instances where certain tax practices depart from principles not because of conflict between the principles but because certain generally accepted goals of social policy are held to override the principles. To cite but three well-known examples, let us briefly examine the tax treatment of alcohol and tobacco, the exemption of churches and charitable organizations from property tax, and tax discrimination based on location.

68. In all countries whose revenue systems we have studied, alcohol and tobacco are taxed more heavily than other foods and beverages. This is a violation of the principle of neutrality, sanctioned historically in part by the widespread belief that such commodities are luxuries whose consumption, within limits, should be discouraged. We are not convinced that many governments have seriously sought to attain sumptuary objectives of this kind by taxation, or that where they have, the pricing mechanism represents the most appropriate or effective means of achieving these objectives. Stronger justification for the relatively high taxation of these products undoubtedly rests on the fact that their heavy consumption by many individuals imposes substantial costs on society. But the very high taxation of alcohol and tobacco in many jurisdictions must ultimately rest on social policy and consensus.

69. The exemption of churches and charitable organizations from real property taxes—a common practice in Canada, the United States and other countries—violates the principles of benefits received, equal treatment of equals, and neutrality. The social policy underlying such exemptions and other preferential treatment may be defended in terms of the valuable contributions that these institutions make to their supporters and to society generally, and because of the difficulty of providing support for churches through direct subsidy.

70. Social policy frequently finds expression in tax discrimination on the basis of the location of the taxpayer. Such discrimination clearly violates the principle of equal treatment of equals. Among the areas of discrimination that have come to our attention are provincial and municipal tax concessions offered to induce firms to select a particular location. At the federal level, tax concessions and subsidies for industrial firms locating in "designated areas" of low economic activity testify to the belief that equal treatment must here give way to the national interest.

71. That social policy may from time to time override the principles of taxation is a fact of life. And it can be argued that in a democratic setting, social policy based on a deep-seated popular consensus should have priority over principles in that it represents the will of the people. The danger of this argument, however, is that if pushed too far, it sanctions indiscriminate trampling on the principles of taxation and hence invites revenue-raising by caprice, which is hardly compatible with constitutional democracy. As a Committee on Taxation, we deem it our particular responsibility to assess the tax system in terms of its conformity to principle, leaving to others the interpretation of the dictates of social policy.

72. We, of course, recognize that social policy may at times take precedence over the application of the principles of taxation. But we believe that in every such instance, the case should be clearly established. We confess that although we have bent every effort to relate our recommendations to the principles that we espouse, we have ourselves in the course of this Report occasionally departed from principle in deference to social policy—for example, with regard to alcohol. We have taken scrupulous care, however, to label clearly each of our departures from principle and to state our reasons for them. But for the vast majority of the topics treated in this Report, we do not advocate that principles bow to social policy in the matter of provincial and municipal tax discrimination on the basis of location. At this juncture we are anticipating the subject matter of the next chapter.

Chapter 2

The Committee's Philosophy of Government Finance: Intergovernmental Fiscal Relations

INTRODUCTION

1. By our terms of reference, we are required to report upon the revenue system not only of the Province of Ontario but also of its municipalities, both regional and local, and of its school boards. The philosophy of taxation we have set forth in the preceding chapter is applicable to the conduct of government at any level within our political system. But given the multiplicity of these levels, we must now unfold our broad philosophy of intergovernmental fiscal relationships with respect to the proper meeting of over-all public revenue and expenditure responsibilities within this country. In this latter connection it is readily apparent that the Province of Ontario operates not in a vacuum but as one provincial entity in a greater Canadian nation. Federal tax and expenditure policies vitally affect the economic development of Ontario, both directly and indirectly through their impact on the country as a whole. Conversely, Ontario's economic policies, and those of other provinces, may support or impede both national objectives and the objectives of sister provinces. We therefore find it necessary to begin our discussion of the most appropriate fiscal relationships among the several levels of government in Canada with a statement of our philosophy of federalism and of federal-provincial fiscal relations.

OUR PHILOSOPHY OF FEDERALISM AND ITS FISCAL IMPLICATIONS

THE NATURE OF FEDERALISM

2. Federalism is a system of government that attempts to reconcile unity and diversity. More specifically, federalism involves a constitutional division of authority and responsibility between a national government on the one hand and several regional or provincial governments on the other. Under a federal constitution, public functions are often exclusively allocated to one level of government, as, for example, defence to the federal government and education to the provinces, or they may be shared, as, for example, welfare. Whatever the individual function, however, the essence of federalism is that the ultimate executive and legislative powers for the performance of that function reside in whole or in part at one or the other level of government, national or regional.

3. In Canada it is precisely this constitutional allocation of power between the Dominion and the provinces that enables federalism to play so well its role in reconciling diversity and unity. The several provinces enjoy, within the spheres of activity assigned to them, constitutionally guaranteed authority to develop public policies suited to their peculiar needs. At the same time the Dominion, within its own constitutional confines, is the repository of those powers necessary to ensure the uniform discharge of functions that affect the well-being of the country at large.

OUR PHILOSOPHY OF FEDERALISM

4. Our philosophy of federalism is based firmly on our recognition of the value of this mode of government as a constitutional mechanism for the simultaneous promotion and mutual reinforcement of unity and diversity. To be sure, the pursuit of diversity within a framework of national unity, as Canadian history attests, is neither easy nor automatic. Healthy intergovernmental relations in a federal system can be achieved only through continuous and unremitting effort, on the part of all, to adjust to changing circumstances.

5. We believe that if any Canadian federal system is to function satisfactorily, its underlying fiscal arrangements must reflect four basic principles. The first of these is *autonomy*, which at the provincial level requires that each of the provinces have the power to determine its own taxation and expenditure programs and that it assume full political responsibility for its decisions in these areas. Provincial autonomy emphasizes the fact of diversity among the component parts of a federation.

6. The second principle, which we choose to call *economic mobility*, stresses a federation's need for unity. Economic mobility requires an absence of internal barriers to the geographic and occupational allocation of human and material resources and to the free movement of goods and services. Any such barriers lessen economic efficiency and accordingly have no place in a smoothly functioning federal system. It follows that public policy in a federal state must be the

subject of close intergovernmental co-ordination. This should hold both in the economic realm and in related fields; here steps recently initiated by Ontario to make possible nation-wide portability of pensions provide an excellent example. It also follows that the principle of provincial autonomy provides no justification for the use of fiscal measures designed to distort the market allocation of resources in pursuit of protectionist goals. Interprovincial differences in tax levels, in grants and welfare payments, and in fiscal incentives to industry will necessarily affect resource allocation to some degree but are potentially subject to co-ordination. Far more serious are provincial policies deliberately restrictive and discriminatory in nature, of which preferential purchasing policies and "buy provincial" campaigns are leading examples. The difficult harmonization of national and provincial economic interests will scarcely be promoted by the independent use of restrictive policies by the provincial governments, the main effects of which must be a lowering of the productivity of the Canadian economy and the shifting of some part of the costs of uneconomic provincial policies to outsiders.

7. Our third and fourth principles are designed to smooth the path of reconciliation between diversity and unity, between provincial autonomy and economic mobility. The third principle is that of *equalization*, which implies that it is both necessary and appropriate to ensure that every province have the financial capacity to provide public services at a level that is regarded as minimally satisfactory, by generally accepted Canadian standards. If such minimal financial capacity is not made available to every provincial government, provincial autonomy will be illusory because certain provinces will lack the resources to meet the costs of their basic services. The Rowell-Sirois Commission noted twenty-five years ago, a grossly "unequal distribution of the national income as between the people of different regions may excite feelings quite as dangerous to national unity as those aroused by gross inequalities between different income groups".[1] For reasons which we shall advance later, we believe that, as a general proposition, equalization should apply directly to provincial revenues rather than to provincial expenditure. We recognize, of course, that there may be the occasional case for exceptions to this rule, particularly where the provision by the provinces of a particular service at a nationally uniform standard is deemed necessary. The Trans-Canada Highway project is a recent example.

8. As a fourth and final principle, we believe that *co-operation*, both federal-provincial and interprovincial, is an essential ingredient of federalism. Provincial autonomy, clearly understood, cannot operate in a vacuum when the interdependence of the provinces within a thriving national economy is a fact of twentieth-century life. Conversely, the federal government cannot hope to discharge its responsibilities effectively without taking into account the impact of its policies upon the provinces. If ever a luxury, co-operation between the federal government and the provinces, and among the provinces, especially in the formulation and implementation of economic policy, has now become a vital necessity. The need for

[1]Royal Commission on Dominion-Provincial Relations, *Report*, Vol. II, Ottawa: King's Printer, 1940, p. 10.

co-operation extends from the highest ministerial level to the more specialized compartments of the public service, and its scope ranges from the realm of broad fiscal and economic issues to such highly specialized fields as conservation, public health and tax administration.

9. We believe that intergovernmental co-operation is vital to the achievement of at least five important ends. First is simply the exchange of information. A frequently cited advantage of federalism is that it gives a nation the advantage of many governments, each of which is a laboratory for policy experiments. Communication is indispensable if the benefits of experimentation are to be reaped fully. Second is the recognition and identification of common problems. Whether in matters of health or education, welfare or transportation, governments should have the opportunity to discover the extent to which they share similar challenges. Third is research. Joint efforts in the quest for solutions to common problems are often the logical outcome of the identification of such problems. Fourth is the elimination of needless and wasteful duplication. The achievement of this end is entirely dependent on the smooth accomplishment of the first three. Fifth is the negotiation of common solutions. It is here perhaps more than anywhere else that regional diversity and national unity will be reconciled to the greatest effect. The negotiation of solutions to common problems, while more frequent now than in the past, remains a relatively untapped resource of Canadian federalism. We shall argue later in this chapter that such negotiation provides the key both to the formulation of effective economic policies and to the achievement of national standards in many fields of expenditure responsibility at present covered by conditional grants.

10. Our philosophy of federalism as a mode of government whose purpose is the reconciliation of diversity and unity has led us to formulate four basic principles: provincial autonomy, economic mobility, equalization and co-operation. We shall now seek to apply these principles to the division of spending and revenue responsibilities in Canada, to intergovernmental grants, and to the taxation by one government of other governmental entities.

THE DIVISION OF EXPENDITURE RESPONSIBILITIES

11. In approaching the division of expenditure responsibilities in Canada, our starting point, explicit in our terms of reference, is the British North America Act. The federal-provincial division of powers and responsibilities laid down in this document has in fact proved much more flexible than certain contemporary critics of the Canadian constitution seem to believe. In making this statement, we are not thinking merely of formal amendments such as those transferring jurisdiction over unemployment insurance and old age pensions to the federal government. We note more especially the many applications of the federal spending power to grants in such fields as highways, health care and public welfare, grants which have served to blend federal and provincial jurisdictions in the pursuit of goals nationally agreed upon. We are also particularly mindful of the growth, both in importance and numbers, of intergovernmental consultative bodies. These bodies, the spectrum of whose activity ranges from the virtually all-inclusive scope of federal-provincial

conferences at the prime-ministerial level to the very specific task of the National Potato Breeding Committee at the technical level,[2] have had the net effect of transforming Canadian federalism from one of exclusively divided powers into a federalism of shared responsibility.

12. Constitutional amendments, applications of expenditure policy, and the growth of intergovernmental consultative machinery have all wrought substantial changes in the dimensions of Canadian federalism. These changes are ample testimony to the fact that the Canadian constitution offers a generous measure of flexibility. Without necessarily approving each and every change in detail, we applaud the degree to which the Canadian constitution has proved itself adaptable to the challenges of one hundred years of history. Those who persist in observing that the British North America Act is a remnant of the horse-and-buggy age simply ignore constitutional developments which make contemporary Canadian federalism as different from its 1867 version as a jet plane is from a stage coach.

13. We believe that no division of powers between the federal and provincial governments can be rigidly maintained for all time. Flexibility is the prime test of a sound constitution. Just as depression, war and economic growth have forced some striking changes in Canadian federalism since 1867, so will the adaptability of the constitution to further change continue to be severely tested during its second century. It is within such a framework of flexibility that we believe that our four principles of federalism—provincial autonomy, economic mobility, equalization and co-operation—can serve as useful guides to the division of governmental responsibilities within a federal system.

14. Provincial autonomy, within the jurisdictional sphere assigned to the provinces under the constitution, is indispensable to ensure that the responsibilities of these governments will be clearly pinpointed in the public mind. In the words of the Rowell-Sirois Commission, "If a province chooses to provide inferior services and impose lower taxation it is free to do so, or it may provide better services than the average if its people are willing to be taxed accordingly, or it may, for example, starve its roads and improve its education, or starve its education and improve its roads."[3] Within its jurisdictional sphere, in brief, a province must be free to determine its own expenditure priorities and its own levels of taxation. Only in this way will a province stand fully accountable at the bar of public opinion. Critics of provincial autonomy may well inquire if the freedom of provinces to determine priorities and levels of expenditure is not disruptive to national unity. To this we reply that it is necessary to bear in mind that citizens of several provinces are also citizens of Canada. It is unlikely that informed public opinion in any given province will long tolerate severe discrepancies in provincial performance, and all the more so if provincial responsibility is clear and inescapable.

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[2]This little known committee convenes officials of the federal Department of Agriculture, together with their provincial counterparts. It is but one example of what are literally dozens of specialized intergovernmental committees.

[3]Royal Commission on Dominion-Provincial Relations, *Report*, Vol. II, p. 84.

15. In this connection, we wish to emphasize that those functions whose benefits are clearly indivisible and whose performance has a direct impact on economic mobility should remain unambiguously federal. There can be no question, for example, that defence, whose benefits are hardly divisible on a regional basis, must be a federal responsibility. The regulation of international and interprovincial trade, of the monetary and banking system, and of unemployment insurance, with their obvious consequences for the free movement of goods, capital, and labour, are likewise appropriate subjects of exclusive federal jurisdiction. Federal autonomy is surely an indispensable counterpart to provincial autonomy, in that ample scope for independent federal action is necessary, not only to ensure national security and economic mobility but also to pinpoint public accountability for the proper discharge of those functions that demand provision on a nationally uniform base. In stressing the independence of each of the two constitutionally established levels of government in Canada, and the close link between autonomy and responsibility, we nevertheless recognize that there are many points at which respective expenditure functions of the federal and provincial governments are intertwined. This is where co-operation and, to a lesser extent, equalization, have an important role to play.

THE DIVISION OF REVENUE POWERS

16. Under the British North America Act, the revenue powers of the federal government are said to extend to "the raising of money by any mode or system of taxation".[4] Provincial revenue powers, for their part, are composed of "direct taxation within the Province in order to the raising of a revenue for provincial purposes";[5] "the management and sale of public lands belonging to the Province and of the timber and wood thereon";[6] and "shop, saloon, tavern, auctioneer, and other licences in order to the raising of a revenue for provincial, local, or municipal purposes".[7] The comparatively limited revenue powers granted to the provinces were consistent with the view of the Fathers of Confederation that, of the two levels of government, the federal faced by far the more onerous burden of expenditure.

17. As in the sphere of spending responsibilities, however, the Canadian constitution again proved its adaptability to changing revenue requirements with the passage of time. Faced with unforeseen public demand for education, welfare, and highway transportation, the provinces, with a strong helping hand from court interpretation of the British North America Act by the Judicial Committee of the Privy Council, greatly increased the scope of their revenue powers. "Direct taxation", thought in 1867 to extend to little more than the taxation of property, gradually become a fount of revenue powers covering most forms of income, consumption and wealth. The motor vehicle, for its part, offered a spectacular instance whereby the service needs created by technological change were matched by corresponding sources of revenue—the gasoline tax and automobile licences. Then too, world demand for natural resources, both renewable and non-renewable, coupled with

[4]British North America Act, 1867, Section 91(3).
[5]Section 92(2).
[6]Section 92(5).
[7]Section 92(9).

successive discoveries of unimagined riches, shaped the management of public lands into an asset of unexpected magnitude to the treasuries of several provinces.

18. Canadian federalism has accommodated the changing needs of the provinces not only through flexible revenue powers but through the constant revision of intergovernmental financial arrangements. Barely two years after their adoption, the statutory federal-provincial subsidies provided by the British North America Act "in full settlement of all future demands"[8] underwent the first of a series of adjustments. More recently, in order to give the Dominion wider scope for the financing of World War II, the provinces agreed to hold their income tax powers in abeyance in return for so-called "tax rental" payments. The resulting centralization of fiscal powers was carried over into the post-war era, then gradually eased as the provinces sought financial accommodation to meet sharply rising expenditures which reflected their very rapid economic growth. The concept of tax rentals was replaced by that of tax sharing, and a welter of grants, both conditional and unconditional, accompanied federal-provincial developments in the field of taxation.

19. The history of intergovernmental finance leads us to the inescapable conclusion that the division of revenue sources must be highly adaptable. Accordingly, we reject the notion, popular in some circles, that an enduring and clear-cut allocation of taxing powers between federal and provincial governments is desirable. It is no more possible to devise permanent and mutually satisfactory tax arrangements in 1967 than it was in 1867. Periodic revision to take account of changing circumstances is the *sine qua non* of a sound intergovernmental revenue structure.

20. Just as in the case of a flexible division of spending powers, we believe that our principles of autonomy, economic mobility, equalization and co-operation are enormously relevant to a proper allocation of revenue powers at any given point in time. By applying the principle of autonomy to federal-provincial finance, we derive what we consider to be two highly important rules. The first is that the governmental entity responsible for spending money should, to the greatest extent consistent with the principle of equalization, be the entity responsible for raising that money. The second is that each of the two levels of government, federal and provincial, should have access to a balanced revenue structure through the taxation of income, consumption and wealth.

21. Our first rule requires no explanation. It is one of the most basic principles of parliamentary democracy and a keystone of responsible government. As to our second rule, we believe that the scope of provincial responsibility, covering as it does some of the most important spending functions of modern-day government, necessitates a revenue structure broadly based on income, consumption and wealth, in order that expenditure may be financed by recourse to a balanced tax system. We also consider that a broad revenue structure at both the federal and provincial levels is the prime requisite for the constitutional flexibility which we deem so important. An undesirable degree of rigidity would surely be the prime consequence of a division of revenue that locked the provinces into the exclusive use of, let us say, the personal income tax to the exclusion of all sales taxes, or vice versa.

[8]Section 118.

22. Just as an autonomous provincial role in determining expenditure levels and priorities will lead to interprovincial differences in the provision of services, so also will provincial discretion over a wide variety of revenue sources result in interprovincial differences in the degree of tax burdens. Interprovincial differences in tax levels can be expected to have marginal consequences for national economic mobility, but we believe that provincial policies of non-discrimination, together with equalization and co-operation, will go far toward mitigating any otherwise harmful results. On the other hand, provincial tax concessions in favour, let us say, of resident corporations, may artificially distort a market allocation of resources on a national basis quite as much as expenditure policies that give preferential treatment—for example, to the local wine industry in Ontario. We wish to emphasize once again our belief that protectionism, whether in taxing or spending, has no place in a well-ordered federal system. We fully endorse the position that the Royal Commission on Dominion-Provincial Relations expressed in 1940 as follows:[9]

> It is probable that there is no single province so situated as to gain on balance by the existence of local protectionism in Canada. In each case the desired objective is sought with such immediacy that the longer view, taking account of secondary results and ultimate consequences, is excluded from consideration. . . . The damage done by local protectionism takes many forms; among them, the artificial location of industries within the national economy; the wastes of uneconomic competition; the financial burdens involved in supporting uneconomic industries; the uncertainty to business everywhere if markets in other provinces are in danger of being shut off by protectionist devices; the emphasis laid on rivalry and jealousy between the provinces.

In proper perspective, provincial autonomy in raising of revenue is a hallmark of public accountability, not a licence for the creation of tax havens.

23. In addition to a wide jurisdiction over taxation, genuine provincial autonomy requires the use of equalization payments designed to raise the tax yield of poor provinces to a level that will enable these provinces to provide services that conform to at least a minimally acceptable Canadian standard. Indeed, we believe that equalization payments are a *sine qua non* of provincial autonomy which, to be effectively operational, must mean that no province lacks the wherewithal to meet its basic service responsibilities.

24. Reserving our position on the relationship of equalization payments to economic mobility for treatment in the grants section of this chapter, we wish to record here our opinion that the most appropriate index on which to base equalization is provincial revenue. The alternative indexes most often mentioned are, of course, personal income within the provinces and provincial government expenditure, both of which we consider distinctly inferior. We reject the use of personal income as an index of interprovincial equalization for two reasons. First, we do not regard equalization as a policy designed to mitigate interprovincial differences

[9]Royal Commission on Dominion-Provincial Relations, *Report*, Vol. II, p. 64.

in total economic performance, both public and private. On the contrary, we view it solely as a means to shore up the ability of provincial *governments* to meet minimum service standards. It follows that equalization should take place primarily with reference to the public treasury and not to the provincial economy. Second, the argument that the ability of a provincial government to provide services is synonymous with an aggregate index of economic performance as measured by personal income, a measure that includes public transfer payments, is most dubious. For instance, a province well endowed with natural resources and able to tax their exploitation may have a government more able by far to provide acceptable levels of service than a province that is less well endowed but has a higher level of personal income.

25. To reject provincial expenditure as an alternative index for equalization purposes may appear odd at first blush. Equalization, after all, looks toward minimally satisfactory standards of service. Nevertheless, we believe that there exist three strong arguments for bypassing provincial spending as a suitable index, under all but exceptional circumstances. In the first place, formulas that seek to equalize on the basis of provincial spending or on the cost of provincial services are very difficult to devise and, once formulated, tend to be extremely complex and of but temporary validity. Moreover, the measurement of provincial expenditure discrepancies on specific services can lead at best to comparisons that are odious and that might infringe on provincial autonomy, and at worst to comparisons that are invalid because different provinces set different service priorities. Finally, because economists generally recognize that the bulk of interprovincial expenditure discrepancies are due to differences in fiscal capacity, equalizing with reference to provincial spending is an attempt to cope with what are in large part symptoms rather than causes.

26. We are thus left with provincial revenue as a final possible index for equalizing interprovincial disparities. We wish to make it plain, however, that our preference for this particular index stems from more than a simple process of elimination. It is our considered opinion that the equalization of provincial differentials in selected tax yields has positive merits of a high order. First, the equalization of tax yields applies to revenue deficiencies that directly reflect underlying economic conditions. Second, this method works directly on the most important cause of expenditure deficiency. Third, and of great practical importance, experience has shown that this same method can be applied through the use of relatively simple formulas.

27. As a general proposition, then, we favour equalization on the basis of interprovincial revenue discrepancies. We believe that the choice of taxes whose yields are subject to equalization must be made with care, as must the selection of the level to which equalization will be carried. Reserving more specific comments on these matters for later discussion, we shall simply make four supplementary observations at this point.

28. First, we are of the opinion that the equalization of provincial tax yields should include the broad range of taxes levied by provincial governments on income,

consumption and wealth. Accordingly, retail sales taxes have a potential role in equalization quite as great as that now occupied by income and inheritance taxes and natural resource revenues.

29. Second, we think that taxes which are justified in large part on the basis of benefits received should *not* be equalized. The yield from such taxes is itself the index of the demand for the services to which the tax is related. For example, a province whose yield from the motor fuel tax is higher than that of another also has a traffic level that demands higher road expenditure. To equalize under such circumstances would be to provide funds where no corresponding need exists.

30. Third, equalization of appropriate provincial tax yields should not be conditional on the actual provincial imposition of a tax at any specified level of rates. The principle of autonomy demands that provincial legislatures be responsible for the level of rates effective within their jurisdiction, while the principle of equalization requires intergovernmental transfers related to standard rates.

31. Fourth, and finally, it should almost go without saying that no equalization formula—as for that matter no division of revenue sources between federal and provincial governments—should be envisaged as a permanent solution to the dilemmas of Canadian public finance. Frequent intergovernmental consultation, together with periodic revisions, provides the only realistic foundation for sound equalization policies.

JOINT OCCUPANCY OF TAX FIELDS

32. In matters affecting provincial revenue, equalization is, of course, but a single facet of the need for extensive co-operation. Co-operation in all matters is of necessity the handmaiden of federal and provincial autonomy. Let us now pursue this theme with respect to a critically important problem area, that of the so-called "joint occupancy" of tax fields. To say as we do that provincial governments should have a revenue structure broadly based on the taxation of income, consumption and wealth is to say that provincial governments will occupy these fields of taxation jointly with the federal government. We fully recognize that joint occupancy poses a stiff challenge to the principles of certainty, simplicity, convenience, and economy of collection and compliance, principles which, as developed in the preceding chapter, we espouse as foundation stones of a sound revenue system. This challenge can only be met through intergovernmental co-operation.

33. Three forms of intergovernmental co-operation are necessary if the joint occupancy of tax fields is to proceed on an orderly basis. The first involves common standards of legislation in jointly occupied fields of taxation. The second concerns federal-provincial tax collection agencies. And the third involves interprovincial tax agreements. Let us consider these in turn.

34. The existence of autonomous provinces, differing in political complexion, social needs and service priorities, precludes uniform rates of taxation in the revenue fields that they occupy jointly. Autonomy, however, does not preclude federal and provincial legislation so framed that the bases of taxes jointly exploited will be uniform throughout Canada. We wish to stress that the practical

advantages of such legislation are enormous. For the taxpayer doing business in more than one province, a uniform tax base greatly reduces the cost of compliance, both in monetary and psychic terms. For the governments involved, a uniform tax base substantially eases the task of enforcement, with corresponding savings in administrative costs and increments in revenue. Uniformity of base is particularly critical in the major tax fields affecting income, consumption and wealth, all of which are derived in large part from economic activity that is carried out on a national scale.

35. A practical example of the extent to which the Government of Ontario is already concerned with intergovernmental co-operation in tax matters can be found in our terms of reference, which direct us "to co-operate with the Royal Commission on Taxation and with any other bodies of inquiry appointed by other provincial governments". Pursuant to this directive we have participated in inter-commission meetings which yielded much common ground for complementary tax legislation, evidence of which is scattered throughout our recommendations. Our experience has impressed us with both the need for continuing efforts in promoting uniform bases of taxation and the practicability of such efforts.

36. Where a major tax, such as one on personal or corporate income, is everywhere levied by federal and provincial governments alike, both a uniform base and a single collection agency are to be strongly recommended. In the case of the personal income tax, we place a major premium on the convenience to employers in withholding, and to individuals in filing, according to the directives and standards of a single tax collection agency. We accordingly approve of the present federal-provincial tax arrangements whereby Ontario has been able to enter into a collection agreement with the federal government, in return for imposing taxes on an income base identical to that of the federal. As for the corporation income tax, we are impressed, as are all students of this tax, with the inherent complexity of allocating profits from nation-wide business activity on a provincial basis. Provincial occupancy of this tax field is a *de facto* infringement on the principles of simplicity and convenience. We recognize, of course, the practical necessity for such occupancy; hence we are all the more concerned that provincial exploitation of this tax be based on uniform legislation and a single collection agency.

37. There are two thoroughly valid arguments against particular features of the present federal-provincial tax collection arrangements. The first disadvantage is that a province, in agreeing to adhere to the federal tax base for purposes of uniformity, has virtually no practical recourse against the erosion of its revenue base, whether sudden or gradual, through unilateral changes in federal tax laws. The protection of provincial revenues requires that any changes in the base of the personal income tax or any other tax where a collection agreement exists, reflect joint agreement rather than unilateral decision. The second disadvantage is that a province's right to conduct separate audits may be unduly circumscribed. These twin disadvantages, while not deemed by Ontario to be sufficiently great to forestall a collection agreement with respect to the personal income tax, are at least partially responsible for the lack of an accord on corporation income tax.

38. We therefore propose that full federal-provincial consultation on tax legislation should take place on an annual basis and that all future tax collection arrangements should give to provinces equal audit rights with the federal government. These co-operative steps provide the key to reconciling the integrity of the tax base in jointly occupied tax fields with the principles of simplicity and convenience. Such steps do not challenge federal or provincial autonomy so long as mutually exclusive jurisdiction over tax rates is retained.

39. Our strong inclination towards enhanced co-operation in the domain of tax fields jointly occupied by the federal and provincial levels extends to the purely interprovincial realm as well. In concrete terms, we are particularly concerned with the present condition of retail sales taxation in Canada. There exists appreciable tax avoidance on transactions involving purchases of goods in one province for consumption in another. We accordingly favour interprovincial collection agreements, agreements whose implementation can be facilitated through interprovincially uniform schedules of taxable items. Our own consultation with other provincial tax commissions has impressed us with the feasibility of such a step. We also note, purely as a matter of principle, that there is no reason why interprovincial agreements for sales tax collection could not be expanded to accommodate the conversion of the federal manufacturers' sales tax to a tax at the retail field.

40. It is evident that we place a high premium on intergovernmental co-operation in the raising of revenue. Both the administrative rationality of the tax system and its proper application to social ends depend entirely upon a network of frank, constant and effective federal-provincial and interprovincial consultation.

THE ROLE OF GRANTS

41. Our treatment of the division of expenditure and revenue responsibilities under federalism has already touched upon the place of grants in an intergovernmental fiscal system. We wish at this point to focus yet closer attention upon the role of federal-provincial transfer payments in Canadian public finance.

42. The making of grants in one form or another is as old as Canada itself. What are the reasons for such transactions? Viewed from the broadest possible perspective, grants exist because no division of tax powers and spending functions can be devised to meet precisely all the fiscal demands that federalism is called upon to meet. More specifically, grants come about for three reasons:

(1) to make up across-the-board deficiencies in provincial revenue (revenue deficiency grants).

(2) to even out gross interprovincial disparities in fiscal capacity (equalization grants);

(3) to encourage provinces to launch or maintain certain services on a nationally uniform scale (stimulation grants).

Grants made in pursuit of the first objective are nearly always unconditional in nature, i.e., they provide funds which can be spent as a province sees fit. Those paid for the second reason can be either unconditional or conditional. If the latter,

they are tied to a designated proportion of provincial spending on a specific function. The third kind of grant is always conditional. Let us briefly review these various grants in turn.

Revenue Deficiency Grants

43. Such grants occupy a time-honoured place in Canadian federalism. The original Confederation subsidies were brought into being because the estimated yield of the revenue sources granted to the provinces under the British North America Act of 1867 fell somewhat short of anticipated provincial expenditure. Much later, during World War II, all provinces received revenue deficiency grants in exchange for holding their income tax powers in abeyance, and in recognition of the fiscal effects of federally imposed rationing of gasoline and liquor. Subsequently, under a series of post-war arrangements lasting until 1962, all provinces except Quebec and—save for the five years from 1952 to 1957—Ontario, received large federal payments in return for "renting" their revenue powers over personal income, corporation income, and successions.

44. As a general proposition, we are strongly opposed to revenue deficiency grants. Such grants constitute a singular violation of the principle of governmental autonomy, which links the freedom of each level of government to determine its expenditures program with its responsibility for legislating its own taxes. We recognize that revenue deficiency grants can occasionally be necessary to give federalism the flexibility necessary to tide it over such major emergencies as a war or a prolonged depression. But over the long run, such grants have no place as a major revenue channel in a well-ordered federated fiscal system. The preferred alternative to deficiency grants is to be found in an appropriate division of revenue powers supplemented by equalization payments where necessary.

Equalization Grants

45. We have already indicated that transfer payments designed to enable fiscally poor provinces to provide levels of service that are minimally acceptable by average Canadian standards are an indispensable adjunct of provincial autonomy and national unity. We have also taken pains to state why it is our opinion that such payments should be based on deficiencies in provincial tax yields rather than on levels of personal income or provincial expenditure and that benefits-related taxes should be excluded from any equalization formula. Recapitulating our position in a single sentence, we believe that equalization on the basis of non-benefits tax yields is simpler, more accurate, and more in keeping with provincial autonomy than equalization through other methods. Again with regard to provincial autonomy, equalization payments should be unconditional.

46. To be sure, we offer the above beliefs in the form of a general rule rather than an all-pervading dogma. We recognize the possibility that equalization on the basis of a tax-yield formula may not in practice meet the basic needs of the very poorest provinces. This is indeed true at present with regard to the Atlantic region. Under these circumstances, supplementary unconditional payments on a basis other than tax yield have a place in federal-provincial finance. We recognize also that

grants of a conditional type can create serious inequities for fiscally weak provinces. Here too, subject to important qualifications to be discussed below, a measure of equalization may be appropriate. But before tackling this specific problem, we wish to expound our general position on the extent to which equalization measures of any kind are appropriate.

47. To be properly grounded, equalization policy involves two difficult judgments, one on the basis of ethics, the other on the basis of economics. The ethical judgment invokes an application of the basic rule of equity which states that individuals similarly situated should be treated similarly. The economic judgment, for its part, attempts to gauge the role of equalization in promoting or distorting an optimum allocation of the country's resources.

48. In approving equalization from the standpoint of equity, certain authorities have taken the view that individuals similarly situated as to income should receive equal fiscal treatment, wherever they may reside, taking into account both their tax burdens and their benefits from public services.[10] This approach in effect eliminates the influence of geography as a factor contributing to the unequal fiscal treatment of Canadian residents. We reject this doctrine of geographical neutrality as unsound in principle and impossible in practice. In our own view, geographic location cannot itself be ignored in determining whether or not individuals are in fact similarly treated in a federal nation. The very notion of federalism as a form of government incorporating and facilitating regional diversity means that geography is a positive rather than a neutral factor in determining an individual's over-all economic situation. We regard equalization designed to eliminate fiscal disparities arising from geographical location as a policy based on exaggerated notions of equity. It is one thing to say that gross disparities in the fiscal position of individuals similarly situated as to income but dissimilarly located as to geography should not be tolerated, and this is a viewpoint which we support. It is quite another thing to say that any and all fiscal disparities among such individuals should be eliminated without regard to their location.

49. The economic effects of equalization, in terms of its impact on the optimum allocation of society's productive resources, is a subject that has generated significant differences of opinion among students of public finance. It is contended on the one hand that, in the absence of equalization, disparities in tax burdens and levels of public services will distort the flow of labour and capital away from the allegedly optimum pattern that would result if, as defined above, government fiscal operations were geographically neutral.[11] Yet from another perspective, equalization payments directly impede an optimum allocation of resources because they permit higher levels of services in poor provinces than would otherwise obtain, thereby discouraging the outward movement of labour and capital to areas where their marginal

[10]See, for example, James M. Buchanan, "Federalism and Fiscal Equity", *American Economic Review*, Vol. XL, September 1950; see also John F. Graham, "Fiscal Adjustment in a Federal Country", *Intergovernmental Fiscal Relationships*, Toronto: Canadian Tax Foundation, 1964.

[11]Buchanan, "Federalism and Fiscal Equity"; Graham, "Fiscal Adjustment".

productivity would be higher.[12] In a similar vein, it could also be said that equalization payments have a distorting effect because they lower the service standards which the more wealthy provinces would otherwise be able to provide and thereby reduce the marginal productivity of labour and capital in these areas.

50. Our collective viewpoint on equalization tries to take account of both its virtues and its dangers. On the one hand, we recognize that equalization payments have an important role in evening out interprovincial fiscal differences whose existence would constitute a threat to optimal resource allocation. Patently substandard services in the poor provinces can hinder labour mobility and discourage the investment of otherwise productive capital. On the other hand, we are acutely aware that equalization involves economic costs as well as benefits. Equalization payments, in detracting from the ability of a rich province to provide additional services without increased tax burdens, adversely affect productivity and growth not only regionally but nationally.

51. In tending to the view that equalization, if pursued too far, involves significant economic costs to the nation, we wish none the less to emphasize that we regard its use as indispensable in the federal state if equity is to be achieved. In deciding the precise lengths to which equalization "should" be carried, an extemely delicate value judgment must be made, one that must balance the ends of national economic efficiency and interprovincial equity. At the risk of sounding trite, we believe that the only reasonable approach to equalization is one of moderation. Neither equity nor economics dictates an equalization policy so extreme that it would seek to place all parts of Canada on the same fiscal footing. At the same time, both considerations demand some measure of fiscal redistribution among provincial governments. The resulting dilemma can perhaps be crystallized to some degree with reference to current equalization practice which calls for transfer payments sufficient to bring the per-capita yield of income and inheritance taxes in every province to the average per-capita yield in the two richest provinces, Ontario and British Columbia. On the one hand, there appears to be no valid reason why the equalization base should not be broadened to include consumption taxes; sales tax yields are surely as relevant an index of provincial revenue capacity as income and inheritance levies. On the other hand, the fact that equalization is now carried to the tax yield levels that obtain in Ontario and British Columbia poses a serious problem. Adverse effects of the present formula on resource allocation are held in check only because a limited number of taxes are included within the formula. But to equalize to the level of the two richest provinces on the basis of all major taxes would surely involve such unfortunate consequences for national economic growth as to be difficult to justify even in terms of equity. We favour the inclusion of a broader group of taxes in the equalization formula but believe that the only sound working principle is to look to *average* standards of fiscal performance as the measure of provincial need. It is in this context that equalization grants have their most appropriate role in our fiscal system.

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[12]See, for example, A. D. Scott, "A Note on Grants in Federal Countries", *Economica*, Vol. XVII, November 1950.

Stimulation Grants

52. The rapid growth of so-called conditional grants or shared cost programs has been a hallmark of post-war Canadian federalism. We have chosen to group these programs under the heading "stimulation grants" in the belief that this designation offers the most accurate description. Such grants, indeed, are designed to stimulate provincial spending on certain functions, often in accordance with prescribed standards. With the significant exception of the hospital insurance program, the federal contribution under these grants is normally a set percentage of total program costs.

53. The standards which stimulation grants seek to promote on a national scale fall into three kinds, depending on the program. The first and vaguest standard simply seeks to promote the provision of a service. Thus, under the unemployment assistance program, all provinces are encouraged to provide relief to the largest class of indigent persons—unemployed individuals whose insurance benefits are exhausted or whose occupations are not covered under the federal unemployment insurance scheme. Here the federal contribution is simply based on whatever actual costs a province incurs in providing relief according to provincially determined scales of assistance. The second type of standard seeks to ensure uniform coverage and nation-wide portability of service benefits without actually prescribing identical levels of performance in every province. Such a standard is peculiar to the provincial health insurance plans launched in accordance with the federal Hospital Insurance and Diagnostic Services Act of 1957. Here federal payments are conditional on interprovincially uniform standards of coverage and provision of hospitalization for persons who are taken ill outside their own province. But the program by no means looks toward identical levels of health care. The third type of standard involves the provision of a service on the basis of complete uniformity. For example, the federal-provincial Trans-Canada Highway has been built according to common engineering standards. Just as stimulation grants seek to promote these variously defined standards, so also do they vary in terms of their life span. Such shared cost programs as the Trans-Canada Highway are plainly of a temporary nature. Others, such as health insurance and unemployment assistance, give the appearance of being more or less permanent.

54. Shared cost programs have in recent years come under increasingly widespread criticism, criticism with which we have considerable sympathy. We note first that these programs do impinge on the capacity of a province to determine autonomously its spending priorities and service levels. These same programs doubtless exhibit a similar tendency at the federal level. It is quite apparent that conditional grants can offer a potential haven to program officers and special interests eager to insulate a special function from the review of treasury personnel and elected officials at each of the two levels of government. We note secondly that some stimulation grants may promote unrealistic standards. Finally, we are impressed by the disproportionate sacrifices which certain shared cost programs can require different provinces to make. While we join the critics of shared cost programs in the above views, we remain mindful of the benefits which national

standards can confer in the domain of certain government activities. The question of the appropriate place of stimulation grants, then, partakes of the essential dilemma of federalism itself. Once again the key problem is to promote diversity within a framework of effective unity.

55. We believe that all existing shared cost programs should be subjected to careful review. It is our contention that present programs have been allowed to accumulate in number and importance without adequate regard to the basic principles of autonomy, economic mobility, equalization and co-operation. We propose as a basic starting proposition that governmental autonomy should not be infringed upon unless there exist clearly valid reasons for doing so. Such reasons will only be found in the need to promote an optimal allocation of people, goods and capital on a national scale. The test for the validity of such reasons is not to be found through federal approbation alone but rather through intergovernmental consultation. This consultation should take place not merely among officials interested in a specific field of activity but also among those who are charged with the higher responsibility of determining broad service priorities. If a shared cost program survives these hurdles, then consideration should be given to grant formulas that will equalize in some measure the sacrifice demanded of the provinces concerned. This we consider an important exception to our general rule that equalization should not apply to provincial expenditure.

56. We are of the opinion that well-directed efforts along the above lines would result in a substantial rationalization of present stimulation grants. Some would fall by the wayside because they simultaneously induce budgetary distortion and promote unrealistic standards. Others, at present envisaged as quasi-permanent, would revert to a temporary status the primary criterion for whose time span would be the period necessary to establish uniform coverage and nation-wide portability. In all instances, the potential of co-operation as a means of obtaining reasonable national standards in the absence of federal financial strings would be fully explored. Surviving and future shared cost programs would be more closely tailored to intergovernmental consensus and financed on the basis of equitable formulas.

57. We do not wish to conclude our discussion of shared cost programs without reference to "contracting out". Under this recently established statutory arrangement, a province can decide to opt out of certain specified conditional grant programs and receive in lieu specified additional percentages of federal abatement on the personal income tax. It is evident that contracting out has the advantage of allowing a shared cost program to operate in the absence of general federal-provincial consensus while, at the same time, avoiding the imposition of a financial penalty on a non-agreeing province. On the other hand, it is equally plain that indiscriminate provision for contracting out could jeopardize the future of all national standards.

58. We believe that contracting out on a limited scale may perhaps make a long-run contribution to the flexibility of the Canadian federal system. Such a procedure could be advantageously invoked either when a province is already

providing a service envisaged under a shared cost program or when one or two provinces are so adamantly opposed to an otherwise general agreement in favour of a stimulation grant as to threaten the fibre of national unity. But contracting out is no substitute for a searching review of shared cost programs. Indeed, the precipitous introduction of this arrangement may well be testimony to the possibility that such a review has been too long postponed. Surely a thoroughly rationalized scheme of stimulation grants can be reasonably expected to reduce to a minimum the need for contracting out.

59. Grants have a critically important role in the domain of federal-provincial fiscal relations. So convinced are we of their importance that we believe that all grants must receive far more searching scrutiny than in the past. Grants are not a substitute for an appropriate and flexible division of revenue sources and spending responsibilities. But they are the key to appropriate equalization measures and, when grounded on federal-provincial consensus, can be an indispensable tool in the promotion of national unity.

THE TAXATION OF GOVERNMENT ENTITIES

60. To conclude this broad discussion of federalism with a note on the position of each of the two levels of government with regard to the other's taxes may appear at first blush to constitute an all too precipitous descent from the realm of generality. It is because we feel that important principles are involved that we choose to consider briefly this situation here.

61. The British North America Act asserts clearly that "No lands or property belonging to Canada or any Province shall be liable to taxation."[13] This assertion has been construed to prohibit either the federal government or a province from taxing the other's land or property. It equally prohibits a province from taxing another province's land or property situate within its boundaries. Furthermore, competent authorities believe that the prohibition of taxation on government land and property extends to all government assets and transactions, because the Crown is traditionally immune from taxation, whether in right of the Dominion or in right of a province.

62. In the nineteenth-century environment, governmental immunity from taxation posed no problems. The scope and range of government activity was limited. The creation of public bodies to carry out what are essentially business transactions still lay in the future. Needless to say, the advent of government as a major employer and purchaser, together with the development of federal and provincial Crown corporations, has forced consideration of tax immunity in a new light. When governments begin to engage in business activity, they enter into competition, direct or indirect, with private business firms. In this light, tax immunity can take on the guise of an unfair competitive advantage in favour of government enterprise. Moreover government, whether it carries on business activity or not, has grown to a size where its demands for public services create substantial problems if met on a tax-free basis.

[13]British North America Act, 1867, Section 125.

63. The assumption of tax responsibilities by federal and provincial Crown corporations has now become widespread. Thus in the domain of sales taxation, the federal manufacturers' sales tax applies to purchases made by provincial Crown entities and provincial retail sales taxes likewise apply to federal corporations. As for property taxation—which, although municipally levied, is in constitutional terms a provincial tax—the federal government has in recent years directed its Crown corporations to commence the payment of full grants in lieu of taxes and substantial progress has been made in this direction. We strongly endorse as an important principle the assumption of full tax obligations by all government business enterprises in order that they may be on an identical plane with private firms.

64. Three important considerations have led us to the view that full tax liability should be extended from Crown corporations to cover all departments of government as well. The first of these is that not all government activity of a business enterprise nature is carried out under the guise of public corporations. To exempt some of this activity from taxation is accordingly to grant an exemption on the basis of an artificial and tenuous distinction which leaves the scope of the exemption up to a government's own discretion as to the type of organization which it will select to discharge its functions. The second is that exemptions of any kind impinge upon the simplicity of a tax system and involve *ipso facto* erosion of a tax base. Our view of any exemption is that it can in principle be justified only on grounds of equity, grounds that would not appear to provide a basis for the unique exemption of government departments from taxation. Our final consideration is that government activity of any kind creates demand for public services in the same way that demand is created by private firms and individuals. To the extent that one level of government is exempted from the taxes levied by another, benefits of such services are conferred without relation to costs.

65. It is our considered opinion, therefore, that the federal government should pay the equivalent of full provincial taxes and that provinces should assume a similar responsibility with respect to their federal tax obligations. We believe that the implementation of this viewpoint, in providing identical tax treatment of government and business, will facilitate an optimal allocation of resources between the public and private sectors of the economy. Furthermore, the consequently enhanced integrity of both the federal and provincial tax base can only promote governmental consciousness of the costs of public services and the simplicity of the tax system as a whole.

66. Our lengthy exposition of the various principles we consider essential to well-ordered fiscal relations in a federal scheme can now be brought to a close. But we have by no means exhausted the vast network of intergovernmental relationships that comprise the whole of the Canadian fiscal system. It is to the no less important domain of provincial-municipal affairs that we now must turn.

OUR PHILOSOPHY OF PROVINCIAL-MUNICIPAL RELATIONS AND ITS FISCAL IMPLICATIONS

THE NATURE OF THE PROVINCIAL-MUNICIPAL RELATIONSHIP

67. Unlike federalism, the provincial-municipal relationship defies simple definition. Perhaps the most useful starting point from which to broach its nature is to compare and contrast its dimensions with those of federalism. Let us begin by drawing the contrasts.

68. Three major elements of contrast between federalism and the provincial-municipal realm suggest themselves to us. First, in *legal* terms, the federal-provincial relationship is based on constitutional law; the provincial-municipal on statutory law. Second, in *policy* terms, the federal-provincial relationship is one of equal to equal; the provincial-municipal is one of superior to subordinate. Third, in *structural* terms, the federal-provincial relationship is one of relative simplicity; the provincial-municipal is highly complex.

69. The statutory nature of provincial-municipal relations flows directly from the British North America Act which places under exclusive provincial jurisdiction "Municipal institutions in the Province".[14] Municipalities are accordingly creatures of the province and a province is legally free to create, modify or abolish any and all units of local government. This surely offers a sharp contrast to the constitutional sanctity accorded to provincial entities in a federal system.

70. The subordinate status of municipal institutions in terms of policy flows directly from their position as creatures of provincial statutory law. Municipal tax powers and spending responsibilities are no more and no less than those laid down in provincial acts. A province can freely choose to make certain public services mandatory at the local level and others merely optional. It can require municipalities to meet specified standards of performance. It can limit the amount of, and otherwise control, the borrowing activities of municipalities and school boards. A province, in brief, can generally supervise and direct the development of municipal public policy. This again offers a distinct contrast to the federal-provincial sphere where neither level of government has a direct responsibility for the conduct of the other.

71. The structural complexity of provincial-municipal relations by comparison with the relative simplicity of federalism hardly needs belabouring. The latter relationship involves a federal government and ten provinces. The former, on the other hand, involves a province and literally hundreds of local authorities, some regional, some not, some of a general-purpose nature—e.g., cities, towns, townships—some specialized—e.g., conservation authorities—and all differing substantially one from the other in terms of area, population and resources. To draw just one of the implications of this major contrast, a federal-provincial conference can take place in the intimate personalized atmosphere characteristic of a university seminar, whereas a full-scale provincial-municipal conference could only be

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[14] Section 92(8).

carried on under conditions resembling a lecture whose attendance would tax the capacity of the very largest auditorium.

72. Of extreme structural complexity, the provincial-municipal relationship is one of local subordination to provincial authority, couched in terms of statutory law. Yet for all its differences from federalism, it has important elements of similarity. Within the provincial scene, municipalities are recognized instruments of diversity. Their existence fosters democratic values by bringing governmental institutions to the individual's doorstep. They can promote efficiency through a division of labour that enables local responsibility to be met locally. As such, municipalities are an integral part of a multiple-level political system both as havens of democracy and as vehicles of public administration. The attendant legal superiority of the province should in no way provide any licence for caprice. Municipalities, by virtue of their intrinsic contribution to responsible democracy and effective administration, have an integrity of their own which partially circumscribes their legally inferior status. The provincial-municipal relationship is accordingly modified from one of pure subordination to one that might be likened to a senior-junior partnership.

OUR PHILOSOPHY OF PROVINCIAL-MUNICIPAL RELATIONS

73. Our philosophy of provincial-municipal relations is grounded in the perspective that has led us to conclude that these relations closely resemble those of a senior-junior partnership. It can now be articulated in terms of four principles which, while similar in number to the principles which we espouse in the domain of federalism, differ appreciably in content. These principles we have chosen to call *local autonomy, provincial responsibility, equalization* and *assistance*.

74. By the principle of local autonomy, we mean that the dual role of municipal institutions in fostering democratic values and administrative decentralization must be respected and encouraged. This aim can only be realized if a well-organized municipal system is accorded ample scope over the discharge of a number of important functions. Municipalities should be accorded a wide measure of discretionary authority over the quantity and quality of the public services entrusted to them, and equipped with sources of revenue both adequate for the discharge of their spending responsibilities and sufficient to ensure direct accountability to the public. Properly understood, the principle of local autonomy is not a refuge for municipalities too small or weakly organized to permit the responsible discharge of important functions. Nor does it sanction the endless multiplication of special-purpose authorities constituted for the provision of a single service, often to the confusion of the electorate and to the detriment of public accountability. Rather, local autonomy, as we envisage it, is both a safeguard to the integrity of municipal democracy and efficiency and a clarion call for municipal institutions capable of bringing responsive administration to all parts of a province.

75. We believe that the principle of local autonomy is supported rather than contradicted by our second basic principle, that of provincial responsibility. This latter principle draws on the incontrovertible fact that municipalities are creatures

of the province and legally subject to provincial statutes. It emphasizes, however, that the considerable power vested in provincial legislatures should only be discharged with reference to an abiding and pervasive concern for the promotion of healthy municipal institutions. Thus the power of a province to create municipalities involves a heavy responsibility for organizing local authorities that will embody a population, area and resources adequate for the conduct of efficient government. Viewed in the above light, local autonomy and provincial responsibility are indeed mutually complementary. We believe that this compatibility is further ensured by our two remaining principles, equalization and assistance.

76. Equalization, one of our basic principles of federal-provincial relations, returns to the provincial-municipal sphere but with a somewhat different connotation. Equalization is, of course, a no less necessary adjunct of local autonomy than it is of provincial autonomy, in that all municipalities must have the financial resources to provide minimally satisfactory levels of public service. But in the provincial-municipal realm, equalization also becomes a highly important concomitant of a province's statutory power over local institutions. Because a province has the power to create municipalities, it is in a position to assess the desirability of pooling tax resources through larger units of local government as an alternative to equalization grants. Furthermore, if a province has the authority not only to devolve mandatory functions upon local government but also to prescribe standards of municipal performance, the need to take account of intermunicipal differences in fiscal capacity is clear and unambiguous.

77. Similar considerations highlight the importance of our final principle, that of provincial technical and administrative assistance. Here we mean to emphasize a primary consequence of general provincial responsibility. This is that a province, in addition to fostering viable municipal institutions, must be ready to provide practical administrative guidance and aid whenever it chooses to exercise its superior powers in the municipal realm. To cite but two examples, provincial legislation calling, let us say, for mandatory community planning is an affront to common sense unless it also makes available concrete technical assistance on how to organize a local planning board or department. In a similar vein, provincial efforts bent on securing greater uniformity in assessment will be futile unless they are accompanied by a well-compiled assessment manual and a program to train assessors in its use.

78. At this point we should make it plain that in espousing the principle of assistance, we do not advocate a provincial tutelage over municipalities. Local autonomy, defined simply as a wide measure of discretionary municipal authority, well grounded on close accountability to the local electorate, remains a prime requisite for a healthy municipal system. Accordingly, the principle of provincial assistance should be understood as looking toward stronger municipal government. We would regard provincial measures that sapped municipalities of their vitality as a harmful disturbance of the provincial-municipal climate that we advocate, a climate in which local autonomy and provincial responsibility provide mutual reinforcement.

79. Four important principles, then, comprise our philosophy of provincial-municipal relations. There now remains the difficult task of applying these principles to the intergovernmental division of expenditure functions and revenue powers, to grants, to local government organization and to provincial-municipal tax liabilities.

THE DIVISION OF EXPENDITURE FUNCTIONS

80. Local autonomy demands that municipalities have important functions to perform. A provincial-municipal system that leaves to the discretion of local authorities little more than sidewalk construction and the erection of street signs would be a system in which municipalities had become empty shells, drained of significance and operating in an atmosphere of public apathy. Any proper provincial-municipal division of spending functions, therefore, must leave in local hands a multiplicity of major expenditure responsibilities.

81. The provincial-municipal division of functions has in fact varied substantially over time. Certain public expenditures that had their beginnings at the municipal level—for example, welfare—have since been moved in part to higher levels of government. Yet other and new responsibilities, many of them the consequence of urbanization and technological change, have recently devolved upon local authorities. Urban renewal provides a good example. The fluctuating nature of the provincial-municipal division of spending responsibilities is testimony to the critically important role of local authorities in our governmental system. That many functions have their beginnings at the municipal level is in part due to the fact that the local authority, as the unit of government closest to the people, is often the first to respond to newly felt needs.

82. It is reasonable to expect the provincial-municipal division of spending responsibilities to alter periodically in response to changing needs and circumstances. This division will of itself tend to be more flexible than that which prevails in the domain of federalism because of the absence of constitutional restraints. Not only can spending responsibilities be readily shifted between the province and local authorities; they can also be shifted by the province among various kinds of local authorities, especially between regional units of municipal government on the one hand and cities, towns, townships and villages on the other. Our principal concern is to ensure that, whatever its exact dimension at any given point in time, the provincial-municipal division of spending responsibilities be such that local discretion over a number of important functions is assured. The principle of local autonomy demands no less, and requires that such changes should evolve from appropriate intergovernmental discussion of the issues.

83. We believe that all those services whose benefits are of primarily local concern should be provided by local authorities. Such services, of course, include police and fire protection, the construction, maintenance and lighting of local streets, and recreation and community facilities. But we are of the further opinion that certain other services, whose provision is as much a matter of general as of local concern, can constitute in important respects a local responsibility as well,

especially if they are under the jurisdiction of sufficiently large units of government. Health, public libraries and the construction and maintenance of access roads are examples of such services. Our motivation in advocating local responsibility for these services stems from the twin underpinnings of local autonomy and efficient administration. Because larger, perhaps regional units of local government automatically pool the financial resources of a more diverse and populated area, they make possible levels of service not otherwise attainable by local authorities. At the same time, such units ensure that the functions assigned to them will conform more closely to locally expressed wishes than they would if the functions in question were assigned to the province.

84. Our concern for local autonomy in the provincial-municipal division of spending functions, to be properly understood, must be viewed from the perspective contributed by the principle of provincial responsibility. Provincial responsibility should apply with particular force to those services that are of both general and local concern. Here the principle extends to minimum standards, to forms of administration, and even to the creation of appropriately designed governmental units.

85. At this point, the applicability of the principles of equalization and of provincial assistance should be obvious. Particularly in the realm of services that are of general concern, equalization, because of the principle of provincial responsibility, will have a vastly greater role than it plays in federal-provincial relations. For its part, provincial assistance in the administrative and organizational realm occupies a key position.

THE DIVISION OF REVENUE SOURCES

86. Just as the principle of local autonomy demands that municipalities have important functions to perform, so also does it dictate that these entities have revenue sources of corresponding adequacy. Since the provincial-municipal division of revenue has no constitutional base, it is the principle of provincial responsibility which dictates that the province provide its municipalities with an adequate revenue system.

87. As a matter of long tradition, the provincial-municipal division of revenue sources has left the tax on real property in organized municipalities to the exclusive use of local authorities. That the property tax is peculiarly well suited to municipal use is attested to both by history and by common practice in most of the industrialized nations of the west. The relative stability and immobility of the tax base, the simplicity of collection procedures, and the ease with which rate changes can be legislated to accommodate changing spending obligations: these are the manifest qualities which have made the property tax the basic local levy. We recognize these qualities and wish simply to single out two other characteristics which add to the appropriateness of the property tax as the bed-rock of municipal finance. First, there is no question but that the high visibility of this tax enhances that essential component of effective local autonomy, public accountability, even though on occasion this may lead to false economies. And second, the property

tax, although imperfectly reflecting benefits received, can be a useful if rough index for gauging the propriety of existing provincial-municipal divisions of spending responsibilities. It can translate the often vague idea of a service that is "primarily local" into the somewhat more concrete notion of a service that is of benefit to persons as owners or occupants of real property and hence one that should be provided locally.

88. The above remark is not meant, of course, to convey the impression that we share in the viewpoint, popular in certain circles, that the property tax should be used to finance only those services that are directly related to property. On the contrary, we believe that there is strong justification for applying the property tax to services that are indirectly related to property as well, both because the distinction between direct and indirect benefits is highly tenuous and because a theory of direct benefits, even if workable, would be unduly confining and hence injurious to the principle of local autonomy. At its best, the notion of direct versus indirect benefits will provide a guide to what portion of a service should be financed through the property tax and what through other means.

89. This brings us to the thorny question of what revenues other than the property tax should accrue to the local level. The principle of local autonomy, with its vital connotation of public accountability, inclines us philosophically to favour the maximum degree of municipal responsibility in the raising of revenue. We are nevertheless conscious of the fact that the property tax yield tends to respond rather more slowly to economic growth than the yields of other taxes, notably those on income and consumption. Because such a large proportion of municipal expenditure is a direct function of economic growth and of its principal concomitant, urbanization, excessive reliance on the real property tax can leave municipal government ill equipped to meet its service responsibilities. In contrast to that of the senior levels of government, the structure of municipal finance reveals a basic imbalance in that it couples a relatively stable revenue base with rapidly expanding expenditure requirements. We have accordingly paid more than passing attention to the development of local non-property taxes, as the most casual perusal of this Report will make evident. Our research, however, has impressed us with the major difficulties—in equity, in collection, and in the allocation of proceeds—that adhere to municipal reliance upon any major non-property tax field, whether in the form of provincially shared levies or not, unless larger units of government are organized where appropriate. We believe that the principle of local autonomy dictates that every possible effort be made to overcome these difficulties, and that the principle of provincial responsibility makes the quest for governmental units suited to the introduction of non-property taxes a matter for vigorous joint endeavour by both levels of government.

90. Attempts to broaden the municipal revenue base, however well motivated and conscientiously undertaken, do not comprise a substitute for the strengthening of the property tax itself. Here we wish to call particular attention to our principle of provincial assistance. Deliberate provincial policies designed to improve municipal assessment practices and collection procedures are indispensable. Another

important area, reflected in the provincial statutory regulation of such activities, is the thorny problem of inter-municipal competition for high-yield commercial and residential developments. Such competition tends to impinge severely on effective planning and on the most efficient allocation of resources. It creates tendencies toward what might be called "municipal protectionism" quite as harmful to economic and social well-being as those involved in provincial protectionism. The answer to such cut-throat competition for a favourable municipal tax base, no less than to the improvement of property tax administration, lies in provincial policies designed to rationalize municipal institutions and improve the local revenue base.

THE ROLE OF GRANTS

91. The difficulties inherent in devising suitable municipal non-property taxes constitute a major reason for the importance of provincial grants to municipalities. Moreover, in the discharge of its municipal responsibilities, the province has utilized such grants as one of its important instruments. The discussion that follows will make use of the threefold division of grant payments developed earlier in the context of federal-provincial finance, namely revenue deficiency grants, equalization grants and stimulation grants.

Revenue Deficiency Grants

92. Unconditional grants designed to make up across-the-board deficiencies in municipal revenue have a place only inasmuch as there is a need to supplement the property tax and in so far as this need cannot be met through local non-property taxes. Since we place a high value on the close public accountability that results from the greatest possible municipal responsibility in the raising of revenue, we view deficiency grants as a second-best alternative in principle. But because of the difficulties that impede a broadening of the local tax base—difficulties to which we have just had occasion to refer—we recognize that revenue deficiency grants are an indispensable adjunct of local finance. We wish to stress, however, that we consider the case for deficiency grants to be practically oriented rather than philosophically sound.

Equalization Grants

93. The case for lessening gross inter-municipal disparities in fiscal capacity, if properly put, is unassailable. The principle of local autonomy can hardly be translated into reality if certain municipalities lack the resources to meet the costs of their basic services. Moreover, the principle of provincial responsibility, with its strong concomitant of provincial concern for the provision of certain services at stated minimal levels of performance, lends forceful support to the development of equalization in local finance.

94. While equalization has a considerable role in the provincial-municipal scene, it remains subject to a cautionary note concerning the danger of inducing distortions in the economic allocation of resources. In particular, we believe that equalization grants are least likely to run counter to a rational allocation of

resources in the provincial-municipal realm if they conform to three basic rules. First, equalization grants are not a substitute for municipal entities' being of viable size. Second, minimal standards of performance laid down by provincial legislation should not seek levels of services that lie beyond what is socially acceptable at any point in time as a *reasonable* minimum standard. Third, as to those services whose benefits to property owners are unquestionably direct, the need for equalization is precluded in all but the very poorest municipalities. This is because the value of property, and hence the municipal tax base, is itself a fair index of the acceptable standard of services needed. Thus an intensively developed residential neighbourhood abutting an explosives factory has both the resources and the need to provide an up-to-date fire department manned by a full-time force using the most technically advanced equipment. A sparsely populated rural municipality, on the other hand, will tend to have a lesser need for fire protection services, matching its slimmer resources.

95. Equalization grants, then, are most appropriate when they are made in recognition of the desirability of enabling municipalities to meet performance standards of minimum social acceptability in services whose benefits to individuals as property owners are either indirect or intangible. Such grants may, of course, be either conditional or unconditional. Our assessment of which form is more desirable must await discussion of the role of stimulation grants.

Stimulation Grants

96. Grants designed to encourage municipalities to provide certain services according to more or less closely stipulated standards constitute a logical extension of the principle of provincial responsibility, which gives a province scope within which to guide the setting of expenditure priorities at the municipal level. Recognition of this point is not, to be sure, approbation of its indiscriminate application. We believe that there exist two realistic limits on the extension of conditional or stimulation grants to municipalities. The first is the point at which such grants involve municipal budgetary distortions such as to impinge seriously on local autonomy. The second is where grant programs have become sufficiently numerous to pose serious administrative problems and to exceed the capacity of local authorities to take advantage of their existence. An important test of the adequacy of a provincial stimulation grant system, therefore, is a combination of restraint and simplicity. Conditional grants should extend only to those programs in which municipal stimulation is a matter of genuine provincial interest. Such grants are, of course, not the only appropriate means of stimulating particular municipal functions in which the province has an interest. It follows that all such grants should be reviewed from time to time with a view toward determining the usefulness of their continued existence.

97. However carefully rationalized in terms of structure and administation, no system of conditional grants can be properly devised without reference to inter-municipal disparities in fiscal capacity. We have become acutely conscious of the inequities that can result from stimulation grants made according to a so-called "flat rate", that is to say according to a stated percentage of total program costs.

Flat-rate stimulation grants are, as is well known, a matter of common provincial practice. The inequities that flow from grants of this type result from the fact that such grants can have two quite different effects. One, the "incentive effect", is the normal effect obtained when a municipality that has not previously provided the grant-aided service, or has provided it at a standard below that envisaged by the provincial grant program, takes advantage of the assistance offered by the province and consequently ties up whatever local tax resources are required to match provincial funds. The other, a "substitution effect", occurs in municipalities that have already provided the service at acceptable standards prior to the inception of the grant. For such municipalities, the new grant provides not a stimulant but a subsidy that can be applied either to the provision of additional units of the grant-aided service, or to other items of expenditure, or to a reduction in property taxes. The result is that stimulation grants, depending on their effect, can create a dual type of discrimination. One arises from the additional budgetary discretion which a municipality enjoying a substitution effect gains by comparison with the municipality subject to an incentive effect. The second is due to the fact that the municipality that already provided the grant-aided service, and hence enjoys the substitution effect, is very likely a wealthier municipality than its counterpart which, not having provided the service previously, falls under the incentive effect. In any system that incorporates a multiplicity of conditional grants, serious problems of equity inevitably arise.

98. Since stimulation grants by virtue of their very effect can accentuate inter-municipal differences in fiscal capacity, equalization provisions have a decided role to play in grants of a conditional type. But because we believe that stimulation grants should be limited in number, and also because all stimulation grants are not necessarily amenable to equalization, it is doubtless desirable to incorporate certain equalization provisions either into unconditional grants made in recognition of across-the-board deficiencies in municipal revenue, or into a non-property municipal tax should one prove feasible. The extent to which equalization should be carried in either case is, of course, subject to the limitations discussed earlier.

99. The task of devising a rational provincial-municipal grant structure, whether with reference to revenue deficiency, stimulation or equalization, is appreciably more complex than that of improving grant practices in the federal-provincial domain. This is largely because differences in municipal population, service needs and fiscal capacity are in fact much greater than those that prevail among provinces. In their most extreme form inter-municipal discrepancies may well be insuperable obstacles in the path of improved grant policies. It is at this point that the viability of municipal institutions themselves must come under close scrutiny.

THE PROVINCE AND LOCAL GOVERNMENT ORGANIZATION

100. As we have already had occasion to point out, the principle of local autonomy is not a haven for municipalities so small or weakly organized that they cannot discharge their functions in efficient fashion. On the contrary, local autonomy stresses the importance of strong and responsible municipal institutions whose establishment and promotion are an important provincial responsibility.

101. The strength of a local unit of government is normally determined by the extent to which population and resources are balanced within a given area. We are of the firm opinion, therefore, that a philosophy of provincial-municipal fiscal relations cannot pretend to be adequate unless it takes into account provincial responsibility for the structure of municipal institutions and the consequences of boundary organization for local autonomy.

102. The notion that a unit of government can be too big to function in an efficient and responsible fashion can be traced back to the earliest political thinkers in the history of western civilization. It is precisely to avoid the more vexing problems of bigness that most modern democratic states foster the existence of municipal institutions. Yet there also exists a contrary notion, firmly rooted in practical experience, that a unit of government can be too small in relation to the minimum size necessary for the most efficient discharge of local functions.

103. We have been impressed by the number of municipal units that lack the necessary area, population and resources needed to achieve financial and administrative adequacy, the essentials of functioning autonomy. The plight of such municipalities is indeed a doleful one. Their revenue base, pitifully slim in many instances, is further eroded by poor assessment and collection procedures. Among such small municipalities can be found particularly strong pressures towards cut-throat competition for business assessment, to the detriment of sound zoning and planning practices. The effectiveness of such important spending functions as health and welfare becomes dissipated because of size too small to support the necessary range and standards of field services. In addition, the ability of the province to be of assistance, whether through grants or administrative guidance, is hampered by extremes of poverty and smallness of scale that defy adaptability to policies designed with more viable units in mind.

104. We are likewise impressed by the extent to which piecemeal solutions to boundary problems tend to be little better than the deficiencies they are designed to correct. *Ad hoc* authorities, such as those created in the health and conservation fields, provide governmental units of sufficient size at the expense of divorcing public expenditure from taxing responsibility. Worse still, such authorities induce growing reliance on appointed or indirectly elected officials to the detriment of the democratic practices that surely lie at the heart of true local autonomy.

105. As a result of the above-described circumstances, it has become our considered opinion that, in the interest of local autonomy, provincial responsibility for revision in municipal boundaries has become inescapable. There exist two possible courses of action. One involves the dissolution of certain existing local units in favour of new and larger municipalities. The other is a matter of fostering across the whole province a regional tier of local government that would be directly accountable for the performance of certain services whose effective discharge is dependent on a relatively large population and area. We proceed to comment very briefly on each.

106. New and larger municipalities can provide an answer to many of the problems just discussed. They can promote economies of scale, provide specialized

services not otherwise available, and achieve a needed degree of equalization by pooling the taxable resources of a wide area. We do recognize, however, the existence of circumstances—not all of them valid—that can bar advance along this particular avenue of reform. To take but one admittedly extreme example, an isolated municipality with but a small contiguous population virtually defies enlargement. Viewed in this light the replacement of existing municipalities by larger ones, while both feasible and desirable in many cases, cannot be deemed to exclude other approaches.

107. A second or regional tier of local government is not entirely a substitute for new and larger municipalities; indeed, it may usefully complement their development. In any event, it beckons as a full-fledged reform in its own right. Even in a situation where all municipalities were so constituted as to offer generally viable local government, there would remain certain functions, of which roads, health and welfare would be examples, whose effective discharge might well continue to be circumscribed owing to lack of sufficient population and taxable resources. Here regional government provides a reasonable answer by providing the advantages of a large municipal entity for the services over which it is assigned jurisdiction. Regional government is sometimes criticized by those who contend that, with three levels of government, federal, provincial and municipal, the nation is already overgoverned. But this line of reasoning completely overlooks the simple fact that the practical necessity for regional government is such that this second level of local administration is historically grounded in the county and has also been permitted and even encouraged to develop in an *ad hoc* form. Present *ad hoc* authorities, however, constitute nothing more or less than regional government on a narrowly specialized, fractionalized and disjointed basis, regional government erected at the expense of public accountability and direct responsibility. It follows that the creation of comprehensive regional governments, combining within themselves adequate tax powers and spending responsibilities and directly responsible to the electorate, can be a step in the direction of better government rather than more government.

108. We strongly favour the fostering of larger and more viable units of local government, regional or otherwise. We take this stand not primarily on administrative grounds and certainly not in capitulation to the inevitability of George Orwell's rapidly approaching 1984. Rather, we take it in the interest of securing strong local authorities, thereby preserving and enhancing local autonomy and democratic government.

THE TAXATION OF GOVERNMENT ENTITIES

109. Again because principles are involved, we wish, as we did in our treatment of federal-provincial finance, to descend into the very specific realm of the tax treatment of governmental entities. By traditional practice, the Province of Ontario has exempted itself from municipal taxation. In a reciprocal vein, the provincial government has also been willing to grant municipalities either exemptions or rebates on provincial taxation. And municipal property located within the boundaries of another local jurisdiction has likewise been exempt.

110. Since 1952, Ontario has made grants in lieu of municipal, but not school, property taxes on a limited range of provincially owned property. As for provincial Crown agencies, only the Hydro-Electric Power Commission pays grants in lieu of property taxes for both school and municipal purposes. Much Hydro property, however, is exempt from taxation, and its grants-in-lieu, which are related to its taxable properties only, are paid in relation to a statutory assessment of those properties. Other Crown agencies, such as the Liquor Control Board and the Province of Ontario Savings Office, pay grants solely in lieu of the municipal levy.

111. Both because they derive benefits from the local jurisdictions in which they are situated and because they are engaged in business transactions, provincial Crown agencies should pay full grants in lieu of both municipal and school taxes and be assessed in accordance with the same principles as prevail for private business property. Exemption of Crown agencies, whether partial or complete, has added unnecessarily to the financial problems of municipalities and school boards. Furthermore, the resulting advantage accruing to these entities in competition with private business has no justification in terms either of equity or of economics.

112. Other provincial property, in so far as it creates the same demands for local services as private residential and commercial entities, has no sounder a case for exemption. Provincial buildings require sanitation and related services no less than others. Provincial employees strain local transportation and educational facilities no less than their business counterparts. Full provincial payment in lieu of all local taxes is hence the only logical policy. And by extension of the same argument, municipal property, such as hydro installations situated in other jurisdictions, should meet all property tax liabilities.

113. Just as we advocate full provincial payment of all local taxes, so also do we favour provincial taxation of local entities. The present exemption and rebate provisions which the provincial retail sales tax, to take but one example, extends to municipalities and school boards, only serve to complicate administration and enforcement. If local entities are in need of financial aid, proper assistance should be in the form of revised provincial grants and not at the expense of the provincial tax structure. In short, we favour the demise of all forms of intergovernmental tax immunity, which serves only to undermine sound taxation practices.

OUR PHILOSOPHY OF PROVINCIAL–SCHOOL BOARD RELATIONS AND ITS FISCAL IMPLICATIONS

PRINCIPLES OF PROVINCIAL–SCHOOL BOARD RELATIONS

114. We have undertaken to enunciate our philosophy of provincial–school board relations in isolation from our discussion of the provincial–municipal realm partly because of the peculiar financial and economic importance of education but more especially because school boards occupy a position somewhat different from that held by other local authorities. Thus they are not taxing authorities, but instead raise their revenue requirements through requisitions on local councils. A further difference is found in the fact that those boards charged with the administration of

the so-called "separate" schools enjoy a certain constitutional sanctity not shared by any other local authorities under the British North America Act, 1867, Section 93 of which entrenches the provisions of The Separate Schools Act of 1863. Finally, there is the obvious difference that in contrast to local councils, school boards specialize in the discharge of one particular function, education, which is more fully a shared responsibility of provincial and local government than any municipal activity.

115. We proceed, then, fully conscious of the distinctive position of school boards within the governmental structure. Distinctions aside, school boards do of course remain units of local government. As such we believe that the provincial–school board relationship can be analysed in terms of the four principles developed in the municipal context, that is to say local autonomy, provincial responsibility, equalization and assistance. These principles we presently venture to apply to the division of expenditure responsibilities and revenue sources, to grants and to school board organization.

THE DIVISION OF EXPENDITURE RESPONSIBILITIES

116. The above heading is something of a misnomer in that expenditure responsibilities for education are more shared than divided. The province and school boards share in common the financial burden of nearly all facets of the educational system, including construction, teachers' salaries and school maintenance. Yet on close inspection a certain division of expenditure responsibility becomes apparent. This is a division whereby the province bears the cost of essentially guaranteeing that adequate standards of education will prevail everywhere in Ontario. To the school board, meanwhile, is left the critical responsibility of determining what additional quality of education, if any, shall be sought over and above provincial standards.

117. We approve of leaving to school boards the important role of determining marginal school expenditures and thereby the quality of education that shall obtain locally. This critical role surely befits the importance of local autonomy in a democratic setting and makes possible the diversity and experimentation that are the key to educational excellence. At the same time, provincial responsibility for ensuring that adequate standards shall prevail in all localities is nowhere more pressing than in the domain of education whose proper provision is a matter of the most general, indeed national, concern.

118. In approving the present division of spending responsibilities in education, we reject such item-by-item divisions as are sometimes proposed. To make, for example, the province solely responsible for construction costs while leaving to the municipalities the bulk of operating expenditure, or vice versa, would be an act of artificial compartmentalization which ignored the extent to which capital costs affect operating costs. Or, to take another example, to burden the provinces with the entire cost of teachers' salaries would fly in the face of the autonomy of school boards in appointing teachers, an autonomy that not only enhances local importance but safeguards the occupational mobility of the teaching profession. The most

appropriate division of spending activities in education is surely that which makes the province the guarantor of educational standards and the local school board the source of diversity. It is this division that best reconciles provincial responsibility and local autonomy.

THE DIVISION OF REVENUE SOURCES

119. The local share of educational spending is met entirely through the property tax, including the business tax. This tax is levied not by school boards directly, but by the municipal councils, from which the boards requisition their needs. Two questions of principle consequently arise in the domain of educational finance. The first involves the propriety of using the property tax to pay for the local share of school expenditure. The second arises from the divorce of spending from taxation implicit in the requisitioning of school funds from municipalities.

120. The propriety of using the property tax to finance the local share of school expenditure has become a matter of very considerable controversy. There are many persons who contend that the property tax bears much too high a proportion of the cost of financing local education; some individuals, including certain witnesses who appeared before us at our public hearings, even support the extreme view that the property tax should have no place whatever in educational finance. The stock argument advanced in support of this contention is that education is not a service whose benefits are related to the ownership of property and that as long as the property tax is justified on the basis of benefits received, it cannot possibly constitute an appropriate levy for school purposes.

121. While we take a sympathetic view of the financial problems that have played a substantial role in giving currency to the above argument, we reject it as invalid. Schools do confer benefits on the owners of property, albeit in indirect fashion. Neither people nor business firms will purchase property where school facilities are not provided. In an age where consciousness of the benefits to be derived from education is acute, both families and industrial firms will tend to consider the quality of a community's schools before deciding on location. That municipalities themselves understand the practical value of good schools is abundantly evident from the fact that their own promotional literature designed to encourage further settlement and industrial expansion seldom fails to mention the educational advantages which the community offers. The fact that the construction of sewers may well enhance the value of property more directly than schools makes possible a legitimate argument to the effect that sewers should be financed entirely through property taxation while schools should rely only partly on this tax. But it most certainly does not invalidate the use of the property tax for educational purposes.

122. Local autonomy demands local participation in school finance. The property tax, as the levy most amenable to local administration and by virtue of its directness and visibility, serves to ensure responsible performance in the field of education. If school costs become an excessive burden on property, the answer is surely to be found in increased provincial assistance rather than total removal of

the property tax from the field of education. The latter course could only accentuate the disease that had brought on its existence; the close scrutiny which results from financing schools through the property tax would be lost and local cost control irreparably damaged.

123. The issue of cost control brings us appropriately to what we consider to be the second major problem in the division of school revenue sources: the divorce of spending from taxation implicit in the requisitioning of school funds from municipalities. This practice violates the principle of local autonomy by enabling school boards to evade direct accountability for levels of taxation. Important elements of cost control may have been retained in that no municipal council transmits school board requisitions to the taxpayer without identifying them. Nevertheless, the practice of requisitioning keeps school boards one critically important step removed from direct confrontation with the taxpayer. It is our considered view that no principle justifies the requisitioning powers of school boards. One way to end requisitioning, of course, would be to place education directly under the municipal council, as in the United Kingdom and the Province of Alberta. In the context of the present Ontario school system, the principle of local autonomy at least demands that school boards bill the taxpayer directly for the expenditures they undertake.

THE ROLE OF GRANTS

124. Implicit in our views about the place of the property tax in school finance is the notion that education is a function in which provincial grants command a leading role. This is so for two reasons: education is of considerably wider than local concern, and the elusive concept of equal educational opportunity continues to be an ideal dearly sought after by all democratic states, and one to be pursued by all feasible means.

125. While the place of the property tax in school finance is firmly sanctioned by considerations of local autonomy and public accountability, we believe that this tax should not be counted upon to provide the major part of the costs of education. Education, after all, is a function whose benefits have the widest possible import. Its implications for national well-being are no less, and perhaps greater, than those of defence or foreign policy. The bulk of educational expenditure should therefore be financed from the major taxes on income, consumption and wealth—as indeed it is at present, if universities and kindred institutions are included in the total picture. We are of the opinion that this rule should apply specifically to elementary and secondary schools. Provincial responsibility demands no less.

126. The major taxes on income, consumption and wealth can contribute to school finance only through the medium of grants. It is an observation of the tritest sort to remark that school boards are hardly in a position to levy their own income, sales and inheritance taxes. Accordingly, provincial education grants represent the only possible application to local schools of the major taxes that must properly predominate in the field of education.

127. If grants are the means of funneling the proceeds of major taxes to the school system, they have no less important a task in the realm of equalizing educa-

tional opportunity. There is no public function where equalization is more appropriate than education. Here is an instance where potential conflicts between notions of equity and economic efficiency are minimal. The difference between an advanced industrial society and its earlier counterparts is that today we can no longer afford "mute, inglorious Miltons" whose condition could be charged to a lack of educational opportunity. Moreover, in terms of political values, a healthy democracy demands an educated citizenry, for without one it will not long survive.

128. There is, in our view, only one point beyond which financial equalization should not be carried. This is the point at which the dead hand of uniformity would descend upon the school system. Diversity, including the willingness to provide special and extraordinary educational services, is surely the key to an outstanding school system. Here is where the imagination and motivation born of local autonomy return prominently into the picture.

129. Grants, both as a channel of income, consumption and wealth taxes and as the financial engine of equal educational opportunity, must predominate in the realm of educational expenditure. So-called "foundation" schemes of school finance, which we shall have occasion to discuss elsewhere in this Report, have proved clearly the possibility of devising grants that will fulfil both roles. There remains the question of whether the use of grants for stimulation purposes has a place on the educational scene. Stimulation grants can of course be made on behalf of a variety of services ranging from textbooks to adult education classes.

130. In considering stimulation grants, it is well to remember that what we have called the principle of provincial assistance is so highly developed in the educational domain that it is tantamount to provincial supervision. Vigilant inspection, provincial directives affecting curriculum, lists of departmentally approved textbooks, all are part and parcel of provincial–school board relations. In this setting, the existence of certain stimulation grants that attempt to encourage school boards to carry out stated programs might be reconsidered in the light of substituting therefor an appropriate provincial directive with a corresponding increase in the general school grants. It is well to bear in mind that stimulation grants complicate an already intricate grant structure and that they have the uncertain economic effects described earlier no less among school boards than among municipalities. They should, therefore, be instituted only in a spirit of the utmost restraint.

THE PROVINCE AND SCHOOL BOUNDARIES

131. School units, like their municipal counterparts, can be too small to discharge their functions in an efficient and accountable manner. The decline in the number of one-room rural schools and recent provincial steps in reforming rural school boards offer abundant testimony to this fact. We wish to record our opinion, therefore, that the viewpoint which we developed in discussing municipal boundaries is fully applicable to school boards. Both local autonomy and provincial responsibility demand that school units be as viable as circumstances permit. Not only the present school system, but its further development into vocational and post-secondary phases, is critically dependent on rational and responsive organization.

Chapter 3

The Committee's Philosophy of Government Finance: Provincial Fiscal Policy and Public Borrowing

1. In the first two chapters of our Report, we have presented our broad philosophy relating to the desirable characteristics of a tax system and of intergovernmental fiscal relationships. To round out this background, we shall now consider the general nature, objectives and most appropriate use of provincial fiscal policy, a concept that we understand to include all decisions affecting the aggregate size and composition of government revenues and expenditures, and hence to the magnitude of the government surplus or deficit in any given period. The close relationship between fiscal policy decisions and cumulative changes in the public debt is therefore readily apparent.

CHANGING CONCEPTS OF FISCAL POLICY

2. Until the Great Depression of the 1930's, the most appropriate guide to government fiscal policy was almost universally held to be self-evident. The ideal objective sought by all governments—though with varying degrees of success—was the annually balanced budget. The appeal of this particular prescription lay partly in its simplicity, partly in the mistaken belief that it provided an effective bulwark against the irresponsible expenditure of public funds, and partly in the misconception that like any private household or firm, the government was concerned solely

with the problem of financing the range of expenditures to which it found itself committed at any given time. In short, fiscal performance was evaluated in the light of a purely financial or accounting criterion, applicable to successive twelve-month periods and without reference to periodic fluctuations in the general level of economic activity.

3. The cataclysmic events of the 1930's and 1940's, ranging from severe economic depression to the acute inflationary pressures of war time and the ensuing economic fluctuations of the post-war years, have all served to reveal and clarify the fundamental inadequacies of the balanced-budget fiscal philosophy. Accordingly, modern fiscal theory demonstrates that the most appropriate cash position for government will vary with changes in the aggregate level of activity within the economy and may range from substantial deficits in times of recession to substantial surpluses in times of inflationary pressures. When actual levels of production are below the full-employment potential, the stimulation of aggregate demand for goods and services will be promoted by an expansionist fiscal policy, involving the creating of deficits; on the other hand, when aggregate demand is excessive in relation to available productive capacity, it will be curtailed by a restrictive fiscal policy, involving the creating of surpluses. These varying fiscal effects can obviously be achieved, in principle, by various combinations of changes in taxation and expenditure, the most appropriate combination being determined in the light of the prevailing economic circumstances.

4. We wish to make clear at the outset that fiscal policy should not be regarded as a panacea for the multiple economic ills of society. In so far as it is directed to minimizing fluctuations in the general level of employment, prices and production, its success will depend upon its effectiveness in creating an appropriate level of aggregate demand within the economy. But problems of unemployment on the one hand, or of inflation on the other, may arise from a multitude of causes other than a general deficiency or excess of demand for currently produced goods and services. To be specific, unemployment may reflect seasonal influences or structural or technological changes, and government must utilize an appropriate range of weapons if these problems are to be solved. A ready example is provided by the continuing efforts of the Ontario government to reduce technological unemployment by providing continuously expanding programs of technical and vocational training and retraining. The use of fiscal policy is properly viewed as a necessary instrument in the attainment of society's economic objectives, but it is by no means sufficient in itself, and its limitations must therefore be continuously borne in mind.

5. Despite the growing acceptance of the proposition that taxation, as a major component of government fiscal operations, should perform not only a financial but a much broader economic function, and that expenditure, the other fiscal component, should likewise be varied to achieve desirable economic ends, support for the idea of an annually balanced budget dies hard. As summarized by one writer, the ". . . deliberate unbalancing of the government budget in order to balance the economy as a whole conflicts with strongly held views on the part of the general public with respect to proper budgetary procedure. The average citizen still believes

—and here his view is shared by much of the daily press—that a government should attempt to maintain a balance between its revenues and its expenditures."[1]

6. If pursued rigidly by all levels of government, regardless of changes in underlying economic conditions, the policy of the annually balanced budget would bring higher taxes and decreased government expenditures in recession, lower taxes and increased expenditures in inflation, and accordingly could lead only to the aggravation of economic instability and eventually to economic disruption. Despite such consequences, the balanced-budget tradition has remained strong, even at the highest levels of government, and for much of the post-war period Canadian fiscal policy was significantly impaired by the view, apparently shared by successive ministers of finance, that deficits are a curse and only to be suffered most unwillingly. One authority has observed that ". . . even political leaders who understand and accept modern fiscal theory find themselves very much on the defensive when the budget is in deficit."[2]

7. It is nevertheless true that since the end of World War II, many national governments, including that of Canada, have assumed prime responsibility for promoting a continuously high level of economic activity. The effective pursuit of this objective requires the use of their fiscal powers to achieve an appropriate level of aggregate demand for the goods and services that their economies are capable of producing. This objective is obviously well beyond the responsibility and the ability of private economic units. By generating a cash surplus in any period, the government effects a net withdrawal of funds from the private sector of the economy and thereby tends to ease inflationary pressures. By generating a deficit, the resulting net addition to private funds can stimulate demand and contribute to the maintenance of the desired high level of economic activity.

8. The government of Canada cannot be said to have been either an enthusiastic or a consistent practitioner of counter-cyclical fiscal policy during the two decades since World War II. Yet in the immediate post-war years, its fiscal policies reflected its early explicit recognition and advocacy of the need to use the budget as a crucial economic instrument. Speaking in 1948, the Minister of Finance noted that "... if our budget problem were simply and solely to find enough revenue this year to meet our expenditures defined in the narrow accounting sense, we could afford to reduce taxes by a substantial amount. But that is not our budget problem, and if we approached our affairs in such a short-sighted manner, we would betray our responsibility. . . . I believe that all parties in this parliament and most Canadians share the view that the national budget is no longer merely a matter of the government accounts that should be balanced every twelve months on some financial rule of thumb. We view the national budget now as an integral part of the nation's business, influenced by and having an influence upon the state of employment, income and prices. . . ."[3]

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[1]See Clarence L. Barber, *Provincial Fiscal Policy*, Toronto: Queen's Printer, 1967, p. 1. See also Chapter 1 of this work for a discussion of the current theory of fiscal policy.

[2]See Otto Eckstein, *Public Finance*, Englewood Cliffs: Prentice-Hall, Inc., 1964, p. 95.

[3]Canada, Minister of Finance, *Budget Speech*, May 18, 1948, pp. 9-10.

9. In Canada as elsewhere, the use of fiscal policy as an instrument of economic stabilization has been regarded as the sole responsibility of the central government. There is no reliable evidence that any province has consciously embodied stability objectives as a determinant of its fiscal operations at any time since the end of World War II. Provincial governments have generally regarded as both unnecessary and impracticable the deliberate use of their own taxing and spending powers to minimize fluctuations in employment, production and the general price level. For reasons that we shall proceed to develop, it is our view that such a position is no longer tenable if national and provincial economic objectives are to be pursued most effectively. In this connection, we are encouraged by some very recent statements of policy by the Provincial Treasurer of Ontario. These appear to imply the gradual disappearance of an era in which the growing provincial debt has been viewed in purely negative terms, as an inevitable and unpleasant fact of life to be reluctantly tolerated. In particular, the Minister has spoken of the warranted size of a "planned" deficit in relation to prevailing economic and fiscal conditions within the province.[4]

10. We note in our next chapter that during the past quarter-century, the trend in Ontario's provincial debt has been persistently upward and that its growth presents no definable cyclical pattern, such as might be expected if counter-cyclical fiscal policy had been adopted. The debt has grown in both prosperity and depression, a reflection of the consistent policy of the government of Ontario to finance its entire ordinary expenditures and some part of its capital expenditures from revenues, the remainder of its capital program being financed by borrowing. This particular pattern of finance clearly reflects the long-held "orthodox" view that at least in its "ordinary" operations, the government must at all times balance its accounts. The terms of borrowing, and particularly the maturity of the Province's debt, have been customarily determined by market conditions and not by the lifetime of the assets acquired. The practical result of this pattern of finance has been that during the past decade, the annual deficit of the government of Ontario has averaged approximately 1 per cent of provincial personal income, a ratio that is typical of the provincial situation in Canada.[5]

INSTRUMENTS OF ECONOMIC POLICY

11. Before providing a general assessment of the burden of Ontario's present debt and of its prospective development to 1974-75, we wish to develop further our views concerning the potential contribution of a positive provincial fiscal policy to the economic well-being both of Ontario and of the nation. At the level of national governments, it is well recognized that the two broadest or most general instruments available for promoting the major economic objectives of stability and growth are fiscal policy and monetary policy. Monetary policy encompasses all government decisions designed to influence the general availability and cost of credit within the economy, a range of activities that constitutes the major function of the central bank. The immediate aim of monetary policy is to induce appropriate vari-

[4]See, for example, *Ontario Budget Speech*, February 9, 1966.

[5]See Barber, *Provincial Fiscal Policy*, pp. 46-7.

ations in the state of the economy's over-all liquidity and hence to influence the rate of money expenditure on goods and services. The close interrelationship between monetary and fiscal policies will therefore be readily apparent.

12. Monetary and fiscal instruments are "general" in the sense that their effects pervade the entire economy. They may therefore be contrasted with more selective measures designed to improve productivity in particular sectors of the economy, such as those directed to the improvement of the education and technical skills of the labour force, the stimulation of scientific research and development, changes in the market structure of industry, and regional resource development. It is clear that the economic objectives of stability and growth are closely interrelated, in that success in achieving stability in the short run will at the same time further the longer-term objective of economic growth. Elsewhere in our Report we stress the crucial importance of a sound tax structure in the attainment of this latter objective. The particular point we wish to emphasize here is that while both general and selective measures of economic policy are relevant to promoting economic growth, the battle to minimize short-run cyclical instability must be fought mainly with the general weapons of monetary and fiscal policy.

13. Within the Canadian federation, monetary policy has always been regarded as the sole prerogative of the central government, for if the concept of a "nation" is to be at all meaningful, the existence of a common monetary policy is surely one of its basic economic prerequisites. Because this policy must at any time be based on a consensus of the national economic interest, it will not necessarily serve all regional interests equally well, but in the context of a capital market that is not merely national but international in scope, the notion of separate regional monetary policies formulated and administered by a central bank must be judged completely impracticable. As an economic instrument, monetary policy appears capable of providing a more effective contribution to long-run growth than to short-term stability. This circumstance arises not only from undesirably long lags inherent in the use of monetary policy—a weakness shared in some degree by fiscal measures—but from external balance-of-payments pressures and other constraints which have progressively impeded the orienting of Canada's monetary policy primarily to domestic economic objectives. As an example of this kind of difficulty, it may simply be impossible, given the great sensitivity of short-term capital to international interest-rate differentials, to lower Canadian interest rates to the levels most appropriate for stimulating the economy when substantial unemployment prevails. Because a truly independent national monetary policy is not realistic, fiscal policy has become the Canadian government's major instrument of economic stabilization.

CONFLICTS AMONG ECONOMIC OBJECTIVES

14. In Chapter 1, we included stability and growth among the major economic objectives of society and we noted that government fiscal policy now provides an important range of instruments to be directed to the pursuit of these objectives. In placing major emphasis on the attainment of stability (of employment, production and price levels) in the following discussion, we in no way wish to minimize the crucial importance of generating sustained economic growth within this province

and the nation. On the contrary, we recognize the greatest need for providing a tax system that will lend maximum encouragement to continuously rising levels of productivity within the Canadian economy. Within our own terms of reference, we have sought to advance recommendations that we think will contribute to this result. Our view has been that the productive potential of the Ontario economy is based upon the quantity and quality of its available labour and marginal skills and capital equipment, and upon the technology at hand for embodiment in the productive process. A major contribution of tax policy to rising productivity and long-run economic growth therefore lies in its encouragement of a growing stock of human resources with increasingly diverse skills and in a comparable continuing flow of investment into technologically advanced forms of capital equipment. Equally important to the attainment of satisfactory growth is the formulation of tax measures that encourage the employment of these productive resources in their most efficient uses.

15. Our review of the past performance of the Ontario economy nevertheless leads us to the conclusion that perhaps the most important single contribution which tax policy may contribute to the economic growth of the province lies in its moderation of undesirable short-term fluctuations in employment, production and price levels—in other words, in its contribution to economic stability. In this context, the importance of maintaining continuous high levels of employment and production is perhaps too obvious to require elaboration, but the objective of a stable general price level is likewise crucial, and for two reasons. When significant changes occur in the general price level, the prices of particular goods and services will inevitably change at varying rates, thereby introducing arbitrary changes in the distribution of income among various groups within the economy. These distortions of cost-price–selling-price relationships inevitably create inequities, lessen the efficiency of the productive process and thereby impede the attainment of economic objectives. A second aspect of the problem is that even if every individual price rose (or declined) at the same rate, thereby avoiding the distortions we have just indicated, serious difficulties would still arise as between lenders and borrowers within the economy, the dollars repaid being worth less (or more), in real terms, than the dollars borrowed. Here the resulting redistribution of real wealth again creates inequities and lessens the efficiency of the economic process.

16. We must nevertheless recognize that at any given time in Canada, as elsewhere, the objectives of fuller employment, greater price-level stability and more rapid economic growth may conflict with one another, in that it may not be possible for all to be achieved simultaneously. Difficult choices must therefore be made, in the light of the "trade-offs" that appear possible among various objectives. It may be decided, for example, that a 4 per cent average annual rate of unemployment will be an acceptable object of national policy because the attainment of any lower rate would involve too high a price in terms of additional inflation. If this is so, then 4 per cent unemployment becomes the working interpretation of "full employment" and the government's appropriate fiscal position will be that which contributes to the level of aggregate demand appropriate to sustaining the required

employment level. Viewed in this general context, the continuing goal of the totality of government economic policy will be to improve the trade-off terms—i.e., to lessen the costs of pursuing particular objectives more fully, or to put it more directly, to lessen the degree of conflict among competing economic objectives.

17. Having adopted some practical quantitative definition of full employment, the government must then attempt the difficult task of projecting the potential gross national product of the economy under these full-employment conditions, if appropriate counter-cyclical fiscal policy is to be devised. Given the current structure and rates of taxation and given the current structure of its spending programs, the government will then be able to estimate the total revenues and expenditures that these would produce, at the potential full-employment level of gross national product. The resulting relationship is known as the government's full-employment surplus or deficit.

THE NEED FOR "DISCRETIONARY" FISCAL POLICY

18. From the point of view of economic stabilization, government revenues and expenditures should approximate a balance only when the nation's rate of output (gross national product) reflects a condition of full employment. It therefore follows that in periods of economic recession, the fiscal system should produce deficits, while in periods of strong inflationary pressures it should produce surpluses. Where the effect of current tax and expenditure programs is to produce a balance in the government's accounts before the full-employment level of gross national product has been achieved (and where a potential surplus at full employment is therefore indicated), this potential surplus constitutes what has become known as the "fiscal drag". The term is self-explanatory, in that the government's net withdrawal of funds from the stream of private expenditures, in an economy that has not yet attained the desired level of full employment, renders unattainable the level of aggregate demand required to reach this employment and production objective.

19. It is true that government fiscal operations embody a limited degree of "built-in" flexibility and thereby provide some tendencies to stabilization through the automatic changes that occur both in revenues and expenditures as the general level of economic activity changes. Most striking on the revenue side are the automatic variations in the personal income tax receipts, a reflection of the graduated rate structure of the tax. On the expenditure side of the government's fiscal operations, the built-in stabilizing effects are best displayed by the changing levels of unemployment insurance benefits and various welfare payments. The operation of fiscal drag nevertheless emphasizes the need for placing major reliance upon discretionary changes in revenue and expenditure programs. In a growing economy, with these programs remaining unchanged—i.e., with no discretionary or deliberate fiscal action—the effect of a continuously rising level of production in conjunction with a progressive tax structure will be that tax revenues represent a larger and larger proportion of national income, and that a larger and larger full-employment surplus (government revenues rising relative to expenditures) will be generated. This increasingly burdensome fiscal drag would restrain the rate of economic

growth and, as indicated, prevent the attainment of full employment at any given time. What is required, therefore, is the continuous exercise of fiscal discretion in an effort to balance government revenues and expenditures only at the continuously rising levels of gross national product that full employment makes possible in a growing economy. In so far as discretionary action is embodied in tax policy, there are two very important criteria of what particular taxes should be changed. These are the promptness and the reliability with which any rate changes will transmit their effects to the economy. To retain the greatest degree of tax equity, the broad lines of the stabilization program should have been formulated and generally agreed upon in advance of its utilization.

20. Because Canadian monetary policy has in recent years been subjected to increasingly severe constraints, it appears that the main attack on economic instability must in the foreseeable future be launched with fiscal weapons. In our view, the national interest requires that primary responsibility in this area remain with the central government, for which purpose it must of course retain an adequate fiscal arsenal. But unlike the exercise of monetary policy, the fiscal operations of the provinces and their municipalities represent a strategic and increasingly powerful economic influence within Canada. Their combined annual expenditures now exceed those of the federal government, and a Canadian Minister of Finance has noted that ". . . changes in provincial revenues and expenditures, and in their budgetary balance, have a major effect upon growth and stability in the Canadian economy. It follows too that the timing of their expenditure measures can be such as to contribute to a steady growth of production and jobs, or the reverse."[6]

INCREASING IMPORTANCE OF PROVINCIAL AND MUNICIPAL FINANCE

21. Since the end of World War II, the aggregate revenues and expenditures of all levels of government within Canada have grown rapidly, both in absolute terms and in relation to the financial transactions of the private sector of the economy. Some indication of the importance of the financial activities of all governments in Canada is provided by the fact that in 1964, their collective expenditures on goods and services amounted to $8.6 billion, of which the federal government accounted for $3.0 billion and provincial and municipal governments $5.6 billion. This aggregate represented some 18 per cent of Canadian gross national product. In addition, their transfer payments to the private sector—i.e., excluding intergovernmental transfers—approximated $6.0 billion, of which the federal government disbursed $3.5 billion and provincial and municipal governments $2.5 billion. The resulting total government expenditure of $14.6 billion amounted to some 31 per cent of gross national product. It is particularly interesting to note that while the federal share of this total, $6.5 billion, reflects a growth of 56 per cent during the past decade, the provincial-municipal share, $8.1 billion, has grown by more than 200 per cent during the same period.

22. During 1964, the total revenues of the federal government approximated $8.1 billion, of which some $1.3 billion was transferred to provincial and municipal

[6]See Minister of Finance, *Budget Speech*, April 26, 1965, p. 8.

authorities. Coupled with its foregoing transfers to the private sector and with its expenditures on goods and services, the federal government is therefore seen to have generated a modest surplus of $0.3 billion. Total combined provincial-municipal revenues, excluding the indicated transfer payments from the federal government, amounted to $7.7 billion. Their combined deficit, similarly measured on a national-accounts basis, therefore approximated $0.3 billion, in reality exceeding slightly the federal government surplus. The effect of the intergovernmental transfers was to reduce the federal government's share of combined revenues from 56 to 47 per cent and conversely to increase the provincial-municipal share from 44 to 53 per cent. It is interesting to note that provincial governments transfer to local authorities an aggregate amount almost equal to that which they receive from the federal government.

NEED FOR INTERGOVERNMENTAL FISCAL CO-ORDINATION

23. Given the magnitude of these financial transactions in the public sector of the Canadian economy, it may be readily appreciated that government fiscal policies—i.e., policies relating to the levels, composition and timing of public revenues and expenditures—represent a powerful and inescapable influence on the general level of economic activity within this country. If used effectively as one component of government economic policy, these fiscal instruments can contribute greatly to the attainment of the nation's economic objectives, whereas if they are not so used the objectives may be impossible of attainment.

24. In this connection, it should be noted that the events of recent years have undermined the fiscal powers of the federal government, in respect of both its revenues and its expenditures. With regard to revenues, the provinces once again legislate their own rates of direct taxation (personal and corporate income taxes). In addition, the development of the technique of federal tax abatement has facilitated the greater use of these particular tax fields by the provinces, leaving the federal government with a correspondingly reduced share of these fields. Both of these developments have substantially lessened federal control over what are generally recognized as the most effective instruments of economic stabilization. It may well be that the most important economic issue concerning the appropriate limits to federal-provincial fiscal arrangements and the tax areas to which they might be extended hinges upon the minimum requirements for the retention of effective fiscal control by the federal government. On the expenditure side it is likewise quite clear not only that provincial-municipal outlays substantially exceed those of the government of Canada but that their relative importance will continue to grow. Moreover, those particular areas of expenditure that appear to be most adaptable to cyclical variation—i.e., welfare, roads and housing—represent areas either of provincial or of constitutionally shared jurisdiction, where intergovernmental co-operation therefore becomes essential for most effective action.

25. The continuing trend toward fiscal decentralization within the Canadian federation is a process that may be seen, in historical perspective, as a reaction to the abnormal centralization of economic power that occurred during World War II

and to sharply and continuously rising expenditures in areas constitutionally allocated to the provinces. Such a trend points up the growing unreality of the view that fiscal stabilization policy should remain the exclusive responsibility of the federal government. The effective use of such policy implies not merely the need to avoid fiscal measures operating at cross-purposes but, more positively, that provincial action in this area be formulated with a conscious recognition of its stabilizing potential. This is a particularly important consideration for those provinces whose aggregate revenues and expenditures are large enough to exert significant effects upon the Canadian economy.

26. The economic history of Canada provides repeated demonstrations of the fact that at any given time, the general level of economic activity may vary substantially from one province to another. It follows that broad stabilization policies originated by the federal government will not be likely to cope with regional problems with equal effectiveness and that co-operative provincial fiscal measures can sharpen the attack in particular regions. One might further hope that the assurance of such co-operation from the provinces would encourage the federal government to promote its own stabilization programs on a scale not heretofore thought to be practicable.

27. It is therefore our firm view that the Province of Ontario should recognize its own substantial responsibility for promoting economic stabilization and should therefore undertake to formulate and implement a continuing policy of counter-cyclical financing. Such a policy is required in the interest of both the provincial and the national economy.

28. In the course of our studies in this important area of economic policy, we have been encouraged to learn that a number of provinces have already committed themselves to the principle, if not yet the practice, of counter-cyclical finance. Discussion with provincial officials has further suggested a general willingness on the part of the provinces to complement federal policies designed to cope with the inequities and economic inefficiencies of these cyclical fluctuations. The obstacle to the initiation of effective provincial fiscal action has frequently been explained as lying not in any failure to recognize its desirability but in the financial difficulties involved. With reference to the Province of Ontario, we therefore now wish to shift our discussion from the desirability of counter-cyclical financing to the question of its practicability, noting at the outset that "practicability" involves both financial and technical requirements.

FEASIBILITY OF PROVINCIAL COUNTER-CYCLICAL FISCAL POLICY

29. The possible limitations on the ability of Ontario to adopt counter-cyclical financing have been discussed at some length in a study sponsored and published by this Committee,[7] and because we find ourselves in broad agreement with its findings, we wish to emphasize several aspects of that discussion. It is frequently suggested that in contrast to the federal government, the Province's lack of control over monetary policy will seriously limit its ability to engage in counter-cyclical

[7]See Barber, *Provincial Fiscal Policy.*

financing. It is of course true that when undertaking a program of deficit financing to combat recession, the federal government will look to the Bank of Canada as the major buyer of its securities and as a source of support for the bond market. To the extent, however, that such a policy of monetary expansion is constrained by external balance-of-payments considerations (and such monetary constraints are likely to be substantial under our present system of fixed exchange rates to which we appear to be committed for the foreseeable future) the distinctive advantage accruing to the federal government is correspondingly diminished.

30. On the other hand, if the Bank of Canada succeeds in establishing the easy-money, low-interest-rate conditions appropriate to domestic recession, its beneficial effects will certainly accrue to provincial governments. Given the international mobility of capital characteristic of the Canadian economy, monetary policy will be the relatively more effective stabilization instrument where flexible exchange rates prevail and fiscal policy relatively more effective under a régime of fixed exchange rates, as at present.

31. It will readily be conceded that the effective provincial operation of counter-cyclical fiscal policy requires that appropriate monetary conditions be provided by the central authorities. We think that in the Canadian economy such conditions generally will be provided in any given period, barring the unusual circumstance in which regional cyclical fluctuations vary not merely in degree but in their absolute direction. Were this situation to arise, it would obviously be financially imprudent, for example, for the Province of Ontario or any other province to contemplate incurring the size of deficit, with the accompanying expansion of its debt, likely to be effective in coping with provincial economic recession, at the same time as the federal government pursued a policy of tighter and dearer money to curb inflation that might be generally characteristic of the nation's economy.

32. Because the stabilizing effects of fiscal policy are related to its impact upon the aggregate demand for current production, its initial objective is to alter the level of disposable income in the private sector of the economy. The actual manner of disposition of this income then becomes crucially important. If, for example, the effect of counter-cyclical fiscal policy during recession has been to increase private disposable income, the stimulating effects upon the economy may be disappointingly small. This may be so if much of this additional income is saved rather than spent, or if spent, is used to purchase goods produced elsewhere rather than within the domestic economy. Such savings or expenditures on "outside" goods and services are commonly known as leakages from the flow of domestic expenditures. It will be obvious that the larger the geographic area (to take just one variable) in which stabilization policy is practised, the smaller the leakages are likely to be. Thus, for the Canadian economy as a whole, the leakages from additional income, apart from additions to saving, are represented by any increased expenditures directed to imports from abroad rather than to domestic production. For the Ontario economy, leakages encompass the spending of its residents not only outside Canada but anywhere outside the province.

For a municipal economy, the leakages from rising incomes are likely to be very great indeed.

33. It is clear that of all Canadian provinces, Ontario would suffer least from income leakages associated with its counter-cyclical fiscal operations. The fact that the estimated magnitude of such leakages is less than those of many independent nations reflects both the size and diversification of her economy. There is no doubt that the Ontario economy would derive a substantial cumulative benefit from counter-cyclical fiscal action initiated by the provincial government. If some or all other provinces were encouraged to undertake co-ordinated fiscal action, the dimensions of leakages would be sharply diminished and the benefits accruing to the Canadian economy substantially increased.

34. We support the view that "perhaps the key factor in determining whether a province can pursue an independent fiscal policy is the nature of the provinces' borrowing capacity and the extent to which they can increase their debt",[8] in order to finance the deficits that constitute an inherent component of such a policy. The appropriate magnitude of such deficits will of course be related to the severity of the cyclical fluctuations that beset the economy, and here it appears reasonable to assume, on the basis of Canadian post-war experience, that the typical recession will involve some relatively moderate decline or perhaps temporary cessation in the economy's underlying rate of economic growth. Our studies support the view that in such circumstances, and indeed in the somewhat less probable event of more serious and prolonged recession, the fiscal strength of the Province of Ontario makes feasible an effective program of provincial counter-cyclical financing. We return to some of the debt implications of such a program in later sections of this chapter and we wish to emphasize again our underlying assumption that in such periods of recession, effective monetary and fiscal leadership will be provided by the central government. On this latter point, we agree that ". . . it is virtually certain that in any future period of cyclical decline, the central bank [of Canada] will pursue a policy of monetary ease and this will benefit junior levels of government as well as the central government."[9]

35. At any given time, the "borrowing capacity" of a government relates both to the general availability and to the cost of credit, and fundamentally it rests upon the government's taxing potential, the measure of its ability to meet the debt obligations that it may incur. Availability may also be affected to an important degree by certain customs and preferences found in the capital market and in particular by the traditional views of financial intermediaries as to what constitutes the most appropriate distribution of their asset portfolios, i.e. of their patterns of lending. Such traditions are particularly strong within the Canadian market. As a means of escaping either the real or the assumed domestic limits of their borrowing capacity, provincial and municipal governments in Canada have frequently turned to foreign borrowing in the U.S. capital market, a process

[8] Barber, *Provincial Fiscal Policy*, p. 27.

[9] *Ibid.*, p. 28.

that necessarily involves the assumption of exchange risks by the borrowers, who are committed to meeting their debt obligations in foreign currency.

36. Because the financial community has judged Ontario's economy to be sound and the conduct of its financial affairs to be prudent, the Province has at no time during the post-war years been called upon to test the quantitative limits of its borrowing capacity. The most significant borrowing limitation has rather been found in the reaction of the government to rising rates of interest associated with any rapid and substantial increase in provincial debt. While the general level of interest rates in the economy will reflect the relationship between the demand for and the supply of loanable funds (the latter influenced strongly by the federal government's prevailing monetary policy), the cost of such funds to a particular province will be further influenced by the degree to which its debt management conforms to rather arbitrary criteria of "orthodoxy", as determined by the lenders. There is therefore reason to believe that a major limitation on provincial borrowing is not the existence of high interest rates *per se* but the fear that to proceed beyond rather arbitrary limits will involve a rise in rates relative to those of other provinces, an occurrence interpreted as an undesirable reflection upon the financial reputation of the government.

37. In the context of counter-cyclical finance designed to combat recession in Canada, one may reasonably expect that a constructive complementary policy of monetary expansion by the federal government will lower the general level of interest rates and increase the money supply within the economy. Given the typical decline in the amount of private corporate borrowing during recession and the need of institutional lenders to maintain a satisfactory level and distribution of their earning assets, it should be possible for governments, and particularly for a strong provincial government such as Ontario, to expand their indebtedness substantially and at relatively low interest costs.

38. Recent years have brought an encouraging growth in the general understanding of the potential contribution of government counter-cyclical finance and particularly of the economic role of government deficits in periods of recession. It is nevertheless obvious that there exists a formidable problem of public education in this matter, and that a sustained attack by all feasible means is required, if such a program is to develop the broadly based support essential to its long-term operation. It is perhaps not too much to hope that if positively pursued by Ontario and other provincial governments, financial policies directed to economic stabilization may very soon be commonly accepted as an essential component of responsible provincial fiscal action. In thus promoting a new orthodoxy, such governments might finally win the positive support of the financial community and escape the traditional disfavour that the incurring of deficits has long brought upon them.

39. Apart from considerations related to the availability and cost of funds, government debt policy is obviously conditioned by prevailing views as to the particular circumstances in which it will be appropriate to borrow. These views are formulated by provincial governments in the light of their systems of public

accounting which commonly distinguish "ordinary" from "capital" expenditures according to arbitrary and frequently changing criteria. Granted the legislative and administrative advantages of such a classification, it not only fails completely to provide any basis for, but in a sense obstructs, any analysis of the economic impact of government expenditures and the net financial effects that these may bring about.

40. To utilize the provincial public accounts as an effective instrument for economic policy—and it is our view that such action should not be longer delayed—what is required is the addition of a national-accounts approach to the classification of government revenues and expenditures. In such a presentation, only (and all) those income and expenditure transactions of the government that provide a direct and immediate impact on the total flow of income and expenditure throughout the economy would be included in a national-accounts form of budget. Purely financial transactions (government borrowing and lending transactions, which affect only the asset and liability positions of various sectors of the economy) would be excluded, as would various bookkeeping items solely of internal significance to the government. Moreover, all national-accounts items would be entered on an accrual basis, to ". . . permit a more meaningful appreciation of the timing of changes in the surplus or deficit of the government sector in relation to fluctuations in economic activity."[10]

41. In a somewhat more general context, we may say that the effectiveness of government economic policy will depend upon the skill with which available policy "instruments" are directed to the attainment of a well-defined pattern of economic priorities. In today's complex economy, the skilful use of fiscal and other instruments requires the prompt diagnosis of the current state of the economy and of its prospective trends, in relation to the public's desired goals. It also requires a thorough understanding of the capabilities of various instruments and of the particular impact of alternative policies on the functioning of the economy. In short, effective economic policy requires that appropriate technical expertise be available to government, to provide the relevant information on which sound policy must rest.

42. We are greatly encouraged to observe that with its continuously growing responsibility for promoting provincial and national economic objectives, the government of Ontario has been moving to broaden its technical resources in this important area. We note the constructive development of a provincial "bureau of statistics" to provide a range of economic data not hitherto available to the Province, and we think that its potential will be most fully realized through the establishment of close co-operation with the present Dominion Bureau and with other provincial centres of economic research. Such co-operation is particularly important in the development of complementary programs of research and of comparability in research concepts, techniques and choice of data. We believe that the continuing development of such an economics research program under the

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[10]See Minister of Finance, *Budget Speech*, Ottawa, March 16, 1964, pp. 59-63; April 26, 1965, pp. 31-3. See also U.S. Congress, *The Federal Budget as an Economic Document*, Washington: U.S. Government Printing Office, 1963.

recently appointed provincial Chief Economist can greatly strengthen the government's position in weighing complex issues of economic policy.

PHILOSOPHIES OF PUBLIC BORROWING

43. The attitudes that underlie the borrowing practices of provincial and municipal authorities in Canada have recently been the subject of extensive investigation and analysis by the federal Royal Commission on Banking and Finance, whose findings are readily available for those readers who may wish to pursue the subject in some detail.[11] They confirm the existence of several commonly held and somewhat conflicting "theories" of borrowing which we shall summarize very briefly.

44. The "future-generations" theory holds that because the benefits of present capital expenditures will accrue in large measure to future generations of citizens, it will always be appropriate to rely heavily on borrowing as a means of financing such expenditures. The choice between taxation and borrowing is therefore seen primarily as a means of distributing the burden of cost of capital expenditures as between the present and future generations, and this widely held view has greatly influenced government borrowing decisions at many levels, times and places.

45. It is perhaps unnecessary to point out that regardless of the means of finance adopted, the financial and real resources required to carry through the capital project must be supplied by the contemporary generation, whether through taxation or by lending to the government. The choice of financing will in no way alter the fact that the human and material resources required to construct a school, hospital, road or other capital facility must be contributed at the time of construction. The real or resource cost of the project lies in the diversion of resources from other potential kinds of production to the particular objects of government expenditure, and it is quite clear that no part of this cost can be transferred from one generation to the next. However, it may well be that if various forms of social capital are constructed when the economy is afflicted by substantial unemployment, there may be little or no resource cost involved, since the labour and other resources used in public construction might very likely have remained unemployed had a demand not been created by government.

46. If we define the burden of a particular policy of public finance in terms of its effects upon the productive capacity of any given generation, then the choice of financing, as between taxation and borrowing, becomes important, in that debt financing will involve at least some shifting of burden from the present to the future. In the first place, government borrowing may impinge more heavily on private saving, taxation more heavily on consumption. The effect of borrowing is therefore likely to be that current consumption is relatively little impaired, while the rate of private capital formation is reduced. This will in all likelihood reduce the capital endowment inherited by a succeeding generation and so

[11]See A. W. Johnson and J. M. Andrews, "The Basis and Effects of Provincial-Municipal Fiscal Decisions", in Canadian Tax Foundation, *Inter-Government Fiscal Relationships*, Toronto, 1964, pp. 37-77. This study was undertaken as a part of the research program of the recent Canadian Royal Commission on Banking and Finance.

adversely affect its potential consumption. To the extent that this occurs, the burden of debt financing by one generation will have been shifted to the future. A similar shifting will occur if the higher taxation of future periods impairs the rate of capital formation or lessens the efficiency of production at that time.

47. A second aspect of inter-generation shifting relates to the postponement of taxation which borrowing permits. It may be argued that the actual process of lending involves no burden upon the creditor, who has simply undertaken a voluntary exchange of assets. On the other hand, taxation does involve a real burden, because a compulsory surrender of wealth occurs. Because the related processes of borrowing and taxation (to service and to repay the debt) are distinct in time, there will be a transfer of burden from the present to the future. It should be noted that this will be so whether the main impact of the transfer of private resources borrowed by the government has been reflected in reduced consumption or in reduced private capital formation. One important qualification to this process of tax postponement and accompanying shift of burden arises where the tax base utilized in servicing and repaying the debt is a marketable asset that exists at the time the debt is incurred. This is strikingly true of municipalities, where real property constitutes the major tax base, but the qualification is much less relevant to the provincial tax system. In the municipal situation, it is very likely that the necessary future tax increases will be anticipated and, as the economists say, "capitalized", with a consequent fall in the present market value of the property on which the tax is based. The result will be that the current generation of real property owners will be burdened in a manner not greatly different from that which would have occurred had taxation been chosen initially as the means of financing the public capital outlays.

48. The foregoing discussion suggests that while the withdrawal of resources from the private sector of the economy must occur at the time that social capital projects are constructed, some inter-generation transfer of burden will nevertheless be occasioned by debt financing. Considerations of equity suggest that this result will be appropriate wherever a significant inter-generation transfer of benefits is conferred by such projects. An obvious and inescapable consequence of the choice as between taxation and borrowing is that it will affect the distribution of the community's income in both present and future periods, until the debt has been repaid. The choice therefore affects the distribution of burden both within and among successive generations.

49. In contrast to the foregoing position, the "pay-as-you-go" view maintains that government should normally finance both its operating and capital expenditures from revenues. If no exceptions are admitted, this represents the traditional annually-balanced-budget approach, the glaring economic weaknesses of which have increasingly become recognized. Proponents of this view nevertheless usually interpret it in sufficiently broad fashion to permit the debt financing of such self-liquidating capital projects as provincial and municipal utilities, local improvements assessed to beneficiaries, and the like. Where the "self-liquidating" criterion is extended to include public expenditures designed to provide rather long-run

returns as, for example, in education, the practical significance of the pay-as-you-go formula becomes very vague indeed.

50. It is our considered opinion that self-liquidating provincial and municipal capital projects—that is to say, projects that produce an early and predictable steady flow of income sufficient to meet their cost—may appropriately be financed by borrowing. We note, however, that various public utilities established with the intention of becoming self-liquidating frequently fail to achieve such a financial status or, having achieved it, fail to maintain it. This being so, it cannot be arbitrarily assumed that any proposed public project will most appropriately be financed entirely by borrowing, simply because it is conventionally regarded as being self-liquidating. What is required is a thorough analysis of the prospective cost and revenue patterns of the proposed enterprise to determine its possible cost to the taxpayers. Excluding the genuine self-liquidating category, we think that neither the future-generations argument nor the pay-as-you-go argument provides a satisfactory basis for financing capital expenditure. The former appears to imply that all such expenditures should be met by borrowing, the latter that none should be so met, each representing an extreme position that would preclude desirable fiscal flexibility in adapting to the changing requirements of the economy.

51. If the Province of Ontario and its municipalities were confronted by the continuing prospect of not only high but also relatively stable levels of annual capital expenditures, or of rising expenditures at relatively stable rates of growth, we think that there would be a strong case for these governments to move towards a position where the major proportion of such expenditures was normally financed from revenues, including grants. Given this primary emphasis, the revenue-debt relationship adopted by any particular government would nevertheless depend on the one hand upon its revenue capabilities and on the other hand upon its borrowing capacity, including its ability to sustain the increased debt. In both these respects, the position of the municipalities is notably less satisfactory than that of the Province.

52. As detailed in a later chapter of this Report, our forecasts of provincial and municipal expenditures in Ontario during the next decade confirm the necessity for rapidly escalating capital outlays in such fields as education, resource development, and roads and highways, if public investment is to succeed in making its most effective contribution to increased productivity and sustained growth within the provincial and the national economy. Given these spending prospects, not even the early attainment of an "ideal" provincial-municipal tax system would render feasible their financing on a pay-as-you-go basis, nor indeed would such a policy be defensible in principle. In any growing economy, the secular rise in tax capacity is accompanied by a comparable rise in capacity to carry debt and both sources of finance must be utilized as part and parcel of a sound fiscal policy. To insist in such circumstances upon an unchanging level of debt (the balanced-budget fallacy) is to restrict unnecessarily and undesirably the ability of government to finance public expenditure and to ignore the need of the economy for an

increasing stock of safe and liquid assets without which the incentive to save might well be weakened.

53. Viewing the prospect of both provincial and municipal expenditures in Ontario in the years to 1975, we therefore regard a substantial absolute increase in debt at both levels of government not simply as an inevitable but as a constructive aspect of public finance. What must be carefully considered, however, are the tolerable limits to any heavier burden that may be involved in such increases, and here we think that in view of recent trends, municipal governments may have little room to manoeuvre. In a later chapter of our Report, we offer some views concerning the most appropriate behaviour of provincial and municipal debt during the ensuing decade.

54. Whatever the average proportion of Ontario's capital expenditures to be financed by borrowing through the years to 1975, the most appropriate debt policy at any particular time will reflect the current state of the provincial economy and the indicated need for counter-cyclical fiscal measures. Moreover, in view of the magnitude of aggregate municipal expenditures within Ontario, the effective use of provincial fiscal policy will require some measures to ensure that budgetary changes at the municipal level complement rather than conflict with provincial policy.

MUNICIPAL FINANCE

55. In this connection, we think it quite unrealistic to expect any municipality to initiate counter-cyclical fiscal measures, for it will have neither the competence, nor the financial resources, nor the incentive to adopt such a policy. Yet a very few Ontario municipalities account for a very large proportion of total municipal expenditures within the province, and the advantages of modifying the timing of such expenditures in order to achieve some stabilizing influence on the general level of economic activity are obvious. While the urgent need for schools, hospitals, roads, sewerage systems and other forms of social capital renders the postponement of many municipal outlays impracticable, it is reasonable to suppose that in any given period some of these municipal expenditures are optional and therefore potentially subject to deferment. Our prime emphasis is nevertheless somewhat different in that, given the sound planning of all such expenditures through five-year capital budgets, we think that sufficient flexibility might be introduced to make the advancement of particular projects a realistic possibility.

56. As a comprehensive fiscal planning document, the five-year budget has been the object of considerable study by senior levels of government in recent years. It is viewed not as a replacement for the present one-year budgeting practice but as a supplementary instrument designed to improve the quality of fiscal decisions in regard to both taxation and expenditure. Subject to the inherent risks of forecasting in these areas, the multiple-year budget permits a more rational assessment of the implications of fiscal proposals than the one-year budget can possibly do, and it can be modified continuously by a process of annual revision. We think it entirely possible that through the extended application of the five-year

budget to municipal capital planning within Ontario, significant variations in aggregate municipal expenditures might be achieved, in relation to changes in the underlying state of the provincial economy.

57. To effect this desired integration of municipal with provincial fiscal policies, the municipalities will need to be provided not only with the necessary technical expertise but with appropriate financial assistance, and here we have no wish to minimize the problems involved. We think that municipal governments in Ontario can most effectively be made partners in the counter-cyclical timing of their capital projects through arrangements that permit the advancement in time of specified capital expenditures, without involving these municipalities in any corresponding advancement of the accompanying financial commitments. In relation to the process of five-year capital budgeting, the objective of the provincial government would simply be to alter the timing of capital outlays from that already contemplated by any municipality and its associated local boards in the absence of counter-cyclical considerations. The Province might therefore meet the cost of the municipality's temporary borrowing for a specific period of time, perhaps initially one year, in relation to the bringing forward of municipal capital projects scheduled for a later period, in order to swell the aggregate volume of counter-cyclical capital investment. In addition, the Province would also need to advance its own grant funds for which such projects would be eligible, as determined by the normal criteria for grant assistance. In recent years, the federal government has established conditional grant programs related to capital projects falling within municipal jurisdiction. In part, their objective has been to reduce unemployment, but they have not in practice been effectively geared to cyclical objectives, nor have the available financial resources been most effectively allocated. We think that the manifest interest of the federal government in a broadly co-ordinated program of social capital expenditure can best be reconciled with provincial-municipal priorities in this area, not by direct federal grants to the municipalities, but by an appropriate flow of such funds to the provinces. The provinces will thereby be strengthened in the financing and administering of their own counter-cyclical measures on behalf of themselves and their municipalities.

Chapter 4

The Ontario Setting: Patterns of Expenditure, Revenue and Debt

INTRODUCTION

1. Death and taxes appear to be inescapable facts of life. Medical science has done much to postpone the inevitability of death, but the fatalism with which we have come to accept taxation is underlined for us by the long interval of over sixty years that separates our inquiries from those of our most closely related predecessor, the Ontario Assessment Commission of 1900. That body, familiarly known as the Maclennan Commission, concentrated exclusively on municipal taxation. At the time, provincial taxes were few and made only moderate contributions to government revenue. Comprehensive taxes on income and consumption were still clouds no bigger than a man's hand hovering on the distant horizon. The very environment in which the Maclennan Commission conducted its work transports us into a nostalgic era. Thus the September 14, 1900, edition of the *Toronto Daily Star*, in which the appointment of the Commission was announced, carried an Eaton's advertisement offering good quality men's suits at $8.50 to $10. Shirt collars retailed at 50¢ to 75¢, and cloth-bound novels by such authors as Arthur Conan Doyle, James Fenimore Cooper and George Eliot were on sale at half their usual 20¢ price. Also in stock at Eaton's were 100 cuspidors of finest quality

granite, originally priced at 35¢ but selling for 15¢ "while they last". In another *Star* advertisement reluctant businessmen were told "The Telephone is the Business Agency of the Century. See that you are associated with it."

2. Needless to say, the passing years have wrought so many changes in the province and in the responsibilities that governments are called upon to assume that we cannot use our predecessor's report as a foundation for our own findings and conclusions. Because the environmental setting for our investigation has altered so radically, it seems essential, as a prelude to our detailed studies, to sketch the main elements of growth and change in Ontario. It is, after all, the changing modes of life and employment that have so drastically affected the revenue and expenditure patterns of the government and so provide the main point of reference for our inquiry into taxation policies and practices.

3. It is appropriate to begin what may be described as a remarkable success story with the province's chief resource: its people. We then proceed to observe the ways in which the populace has deployed its knowledge, skills and productive capacities throughout a territorial domain exceeding four hundred thousand square miles, but with a concentration of forces in a southern section that represents less than one-eighth of the total area. From this assessment we can identify the changing activities and the growing social needs that have resulted in adding to the traditionally protective and essentially limited responsibilities of government a multitude of new welfare, servicing and regulatory functions. The expansion of government services and the population's increasing reliance on a high and efficient level of such services have swollen provincial and municipal expenditures and correspondingly tested the ingenuity of those responsible for finding the necessary revenues. These are the essential elements of the environment within which our study of taxation has been undertaken. The ways in which governments go about the task of raising the funds necessary to meet their growing range of commitments —that is, their taxation policies and practices—can have a marked impact on most elements of the environment. By the same token, and as this chapter seeks to demonstrate, the environmental setting establishes certain facts of life to which the system of taxation must be adapted.

THE POPULATION OF ONTARIO

SIZE, COMPOSITION AND DISTRIBUTION

4. When the Maclennan Commission undertook its investigation of municipal taxation in 1900, the population of Ontario was less than one-third its present size of over seven million. In 1900, three out of every four persons lived in a rural setting; today, the proportion of urban dwellers has completely reversed the earlier picture. Even this dramatic transformation from rural to urban dwelling does not reveal the extent to which we have tended to congregate in a few large metropolitan centres. At the turn of the century, Toronto had added only 3,000 persons over the past thirty years to bring its total population to 59,000. Hamilton, Ottawa and London each had less than half this figure. Today the metropolitan centres of Toronto and Hamilton together account for one-third of

the total population of the province. Nearly one-half of the population is now located in the "golden horseshoe" of urban centres extending from Oshawa to Niagara. It is surely unnecessary to dwell on the implications of this new pattern of living for the municipal governments that must provide increasingly sophisticated and expensive services for these points of rapid urban growth.

5. Native-born residents of Ontario appear to find their increasingly urbanized mode of life congenial: at least it can be said that the proportion of them who seek residence elsewhere in Canada is smaller than the proportion of those from other provinces who migrate to Ontario. Similarly, reversing a pattern of the past, more than half of the immigrants who now come to Canada choose Ontario as their final destination. Thus today, over one in five residents of the province is foreign-born—a phenomenon that has not gone unnoticed in larger metropolitan centres, whose character now bears a distinctly cosmopolitan imprint.

6. Advances in medical science and public health measures have affected the age distribution of the population, with far-reaching consequences for the future labour force of the community and with immediate repercussions for the government in such fields as education, housing, health and welfare. In general, we are an older people than we were at the turn of the century, largely because relatively more people live out their biblical span of three score years and ten. The rate of family formation, which in turn governs the number of children in the population, is now ascending again, after a brief decline that set in after the rapid formation of families during the war years and the consequent "baby boom". We can anticipate a repetition of the post-war cycle to bear fruit—and raise governmental expenditures—in the 1970's. Meanwhile, although the proportion of young people in today's population is not as large as it was at the turn of the century, we are still faced with the fact that the number of school-age children today is nearly as large as was the total population of the province in 1900.

7. An increasingly urbanized population places municipal services of all kinds under severe pressure, even as a growing number of elderly people focuses attention on health, welfare and social insurance schemes, and as the burgeoning crop of young people compels governments to take costly measures to provide adequate educational facilities. When we add that an extraordinarily large proportion of the population virtually lives on wheels, spending annually over two-thirds of a billion dollars on new passenger automobiles, we have indeed moved a long way from the halcyon horse-and-buggy days of the early 1900's when fewer than two hundred vehicles were registered for the entire province. The design, construction and maintenance of a network of highways and streets sufficient to girdle the globe more than twice over are but some of the direct costs of the automobile age for which governments at all levels must find financial resources and technical skills. The indirect costs from pollution, congestion, and traffic accidents are only now beginning to take their place on the agenda of government.

ECONOMIC ACTIVITIES

8. Dramatic and extensive as are the changes this century has wrought in the size, composition and distribution of the province's population, they are in large

measure responses to important transformations that have been taking place in the economy and in the occupations that people have come to pursue. The shift to urban living is in an important sense a measure of the substantial decline in the relative importance of agriculture as an occupation. At the turn of the century there were nearly twice as many people employed in agriculture as there are today. This greatly reduced agricultural labour force, occupying somewhat reduced acreage but on many fewer farm units, has nevertheless managed to quadruple the net value of farm production over the last sixty years. It should also be noted that farm production is no longer destined for export but is used domestically to feed the urban population and to provide the raw materials for local food-processing concerns such as bakeries, packing plants, flour mills and distilleries that either did not exist or were very small in 1900. On the other hand, agriculture today contributes only 6.8 per cent to the net value generated from all commodity-producing industries, and its share of the labour force has declined from more than one-third to less than one-tenth of the total.

9. Even as the decline in agricultural employment is an indication of the extent to which we have become urban dwellers, so the shift to urbanization has been associated with the growth of employment in other occupations. The most significant change has occurred in the service industries. These industries, which include transportation, trade, finance and public utilities, now employ more than half the labour force. Nearly another third of the labour force is employed in manufacturing, which contributes in gross value of production, after allowing for inflation of prices, fifteen times the amount it contributed sixty years ago. The construction industry now employs about two-thirds the number in agriculture, and accounts for 6 per cent of total employment.

10. The significant shifts in occupation that have occurred since 1900 have reduced the proportion of self-employed persons as more and more members of the labour force find themselves employed by large concerns and paid in wages and salaries. This change in status may in large part account for growing public acceptance of the need for government intervention in labour disputes, and for new or expanded unemployment insurance schemes, pension plans, medical insurance programs and other public welfare measures.

11. Not only has the pattern of gainful employment altered as indicated, but the composition of the labour force itself has undergone substantial changes. Perhaps the most significant of these changes is the extent to which women have been enabled to enter the labour force by virtue of time-saving gadgetry, community acceptance of the altered role of women, and the growth of service industries more suited to female aptitudes than such formerly dominant enterprises as forestry and mining. In the early 1900's women made up one-seventh of the labour force; today women comprise more than one-quarter of the labour force.

12. While the labour force as a whole has grown to the point where it constitutes some 40 per cent of the total population, actually a diminishing proportion of the populace has been entering employment, largely because the younger age groups have grown in numbers and because young people tend to remain longer in

school or university. The acquisition of a higher level of education and advanced technical training is consistent with the demands now being imposed on the labour force by the increased complexity of our productive system. Rising output must outpace population growth if we are to enjoy a continuously rising standard of living and have the capacity to pay for the mounting costs of more and better government services. For their part, educational and training facilities must keep up with the needs of the labour force if productivity is to be sustained. Here, in a nutshell, is a dramatic demonstration of the unbroken circle of mutual interdependence of a number of interests: we all wish to enjoy a rising standard of living, which depends on increased productivity, which can only be secured by expanding the facilities and time required to acquire the necessary education and training, which, in turn, can be provided only by governments at increasing total cost to the taxpayer, who can sustain these costs only because he is enjoying a rising standard of living! Unfortunately, investment in the education of the young cannot be postponed and, if members of the present generation are all to be given equal opportunities, the mounting burdens on our educational resources and on governmental budgets are inescapable as well as desirable.

13. The variety and scope of occupations now opened up to the populace of Ontario by twentieth-century developments have permitted the labour force of this province to enjoy the highest average real earnings in Canada. The cost of living today may appear to be a far cry from turn-of-the-century prices when books retailed for 20¢ and a good suit could be purchased for less than $10. On the other hand, we have also come a long way from the prevailing average labourer's wage of 23¢ an hour. Today's wage earner in Ontario probably works eight to ten hours per week less than his counterpart in 1900, has perhaps three times the purchasing power, enjoys greater security, and has access to more facilities with which to enjoy his leisure. The "average" resident of Ontario occupies his own five- to six-room house, which is most likely to be heated by oil or gas, and supplied with water through community mains. Stoves, refrigerators, radios, television sets and washing machines can be found in over 80 per cent of the homes, and make Ontario residents among the highest consumers of electrical energy in the world. Three-quarters of Ontario families own at least one automobile; some 11 per cent have two or more. Commanding the largest share of after-tax income in Canada, the resident of Ontario is able to indulge his growing leisure time in foreign travel or recreational pursuits.

14. Our picture of the people of Ontario and their current economic activities as producers and consumers has had to be painted in broad brush strokes that tend to ignore the disparities between regions and individuals. But what this sketch does reveal is a province with a rapidly growing, urbanized population, a varied and increasingly industrialized economy showing a pronounced shift away from its traditional occupational base of primary and extractive industries, and a transfer of an ever-increasing volume of resources to all the supporting service industries required in such an economy. It shows a remarkable concentration of population and economic activity in a small southerly portion of a very large territory. It depicts a growing generation of young people demanding more education and

training with which to apply the new science and technology to our productive processes, thereby sustaining increased productivity. It reveals a labour force enjoying the fruits of rapid development, with more time and money to make the most of them. Above all, our sketch has demonstrated, by passing references, that nearly all these changes have transformed the role of government and occasioned a dramatic rise in the costs of government services. Since this transformation lies at the heart of the taxation problems confronting this Committee, we propose to pursue it now in greater detail.

THE CHANGING ROLE OF GOVERNMENT

15. The Province of Ontario is by no means unique in its exposure to the contemporary forces of industrialization, urbanization and secularization. Nor is it alone in having to adapt to the revolutionary changes in science and technology that have brought us in successive leaps through the eras of canals, railways and highways, to the jet and outer-space age of the sixties. Developments in the field of electronics have precipitated radical changes in communications that shrink the world and bring its astounding variety of events visually before us in our living rooms. The computer, data processing, and automation in all their complexity and marvellous versatility open new vistas, even as they raise such major problems of adjustment as the retraining of the labour force. The energy potential locked in the atom has been released as a great power for good or ill in the world, and this achievement coupled with improved techniques for exploiting conventional sources of energy has added fresh impetus to the economy. In short, we are being buffeted by an unprecedented flood of innovating genius that creates fresh problems of adaptation and adjustment, even as it opens up new perspectives and opportunities for a full life.

16. Increasingly, people have come to look to governments not only as key sponsors of change but, perhaps more importantly, as their buffer against the unremitting and unsettling pressures caused by change. From a somewhat passive protector of persons and property, a provider of law and order, government has been thrust into new roles as conciliator of social conflicts, guardian of health, distributor of welfare, regulator of major sectors of the market place, and owner and operator of commercial enterprises. Whereas in the past representative legislatures, an independent judiciary aided by a staunch local constabulary, and a tiny cabinet assisted by a handful of civil servants could be expected to cope with the functions traditionally assigned to governments, today these functions have multiplied and become so complex that they command the full-time attention of thousands of specialists working in an ever-expanding variety of administrative agencies. Multi-level government, with all its departments and agencies, today emerges as the single largest employer, drawing into its service not only substantial numbers of clerical workers but every conceivable type of professional skill.

17. It is not surprising that the public service of Ontario, as the focal point for major pressures to extend the reach and functions of government, has been affected more dramatically than any other compartment of government by the

forces of change swirling in the community. A legislature that numbered ninety-four members in 1900 has since that time been increased by the addition of only fourteen members, while its traditional methods for the conduct of the province's business have remained essentially unchanged. On the other hand, a cabinet of nine ministers heading eight departments that was adequate for the executive responsibilities at the turn of the century has been progressively expanded with each new area of responsibility assumed by the government. Today, we find a cabinet comprising twenty-three ministers, responsible for twenty-two departments. A list of the departments created since 1915 represents a veritable catalogue of the new positive functions assumed by the Province of Ontario over the last fifty years. Beginning with a Department of Highways in 1915, there follow in chronological sequence departments of Labour (1919); Insurance (1924); Health (1924); Public Welfare (1931) (changed in 1967 to Social and Family Services); Municipal Affairs (1935); Planning and Development (1944) (ultimately becoming Economics and Development in 1962); Travel and Publicity (1946) (subsequently transformed in 1964 to Tourism and Information); Reform Institutions (1946); Transport (1957); Energy Resources (1959) (changed in 1961 to Energy and Resources Management); Civil Service (1962); University Affairs (1964); and most recently, in 1966, a Department of Financial and Commercial Affairs.

18. Even this expansion of the executive branch does not reveal the full impact of the positive role now assumed by the government, for we must also include what were non-existent in 1900: a multitude of boards, commissions and public corporations. These agencies have been allotted many of those functions of government which were virtually unknown to the earlier civil service: regulation, stimulation and operation of certain segments of the province's economy; arbitration of conflicts and supervision of markets; conservation and promotion of physical resources; the buttressing of the weak, the dependent and the sick; and so on.

19. Sheer growth in the number of public employees is one obvious accompaniment to the expanding activities and the increasing number of government agencies. The total numerical strength of the public service of the province at the turn of the century was well under one thousand; that is to say, about one-eighth the size of the contemporary Department of Highways—a department that did not even exist in 1900. In absolute terms the expansion of the civil service has been in the order of an eighty-fold increase since 1900, and the great upward thrust has been concentrated in the years following the Second World War. This expansion, to be kept in perspective, should be viewed in the context of the increasing share of the labour force taken up today by the service industries as a whole. In relative terms, however, while less than one out of every thousand members of the labour force was a public employee in 1900, the proportion is now roughly thirty out of every thousand.

20. These figures demonstrate the rapid accretion of governmental responsibilities at the provincial level but they do not take into account the equally striking expansion of services and staff at the municipal level. While looking at local government, it is well to keep in mind the point raised in the second chapter of this Report:

that the Province is directly responsible for municipalities and school boards. Provincial authority over local government touches upon virtually all local activities, ranging from welfare administration to the form and manner of keeping accounts. There can be no question that the final responsibility for the level, cost and method of financing local services must rest with the Province. Thus no survey of provincial finance and growth could be complete without simultaneously taking local government into account.

21. The municipal picture is so kaleidoscopic that it defies summary treatment. As an indication of the general situation, it may be noted that in June 1965, seventy-three Ontario urban municipalities with populations over 10,000 employed nearly 49,000 persons with gross annual payrolls running well above $200 million. A complete picture would have to include the many more employees hired by some nine hundred other municipalities, and several thousand local public bodies such as municipal utilities and school boards. Municipal authorities, like the Province, have had to cope with the scientific and technological advances that make new programs feasible, and that create increased public expectations for more and better services. This applies to sewage treatment as well as snow-plowing, to firefighting as well as the care of the aged. Improvements in technical capacity, as previously noted, necessitate a continuing drive to extend primary and secondary education, the main burden of which has been borne by local property. Again, the trends toward urbanization and the concentration of industry and population create a variety of social and technical problems that necessitate governmental action and increased public expenditures.

PATTERNS OF GOVERNMENT FINANCE

22. An analysis of the expenditure and revenue patterns of the provincal government and local authorities can provide an indispensable outline of recent trends in government receipts and disbursements, together with a sketch of the manner in which public funds are allocated. At the same time, such an analysis can reveal the pressure points on our taxation system that have given rise to this inquiry. Unfortunately, however, no analysis of revenues and expenditures is possible without a degree of arbitrariness in the choice of figures. Data series that are consistent over time are, as we shall have occasion to comment upon later in this Report, all too difficult to assemble. After a great deal of work, we were able to come up with time series on general expenditures and revenues, which require brief explanation. General expenditures offer a tabulation of current and capital expenditures in the year during which spending took place. With respect to capital expenditures, this means that our figures purport to show whatever capital funds were spent in any given year, whether from general revenues or from borrowing. We have scrupulously attempted to omit allocations for debt repayment, since these would involve double counting, but cannot vouch for 100 per cent success, particularly in our presentation of municipal expenditures. The reader should note that municipalities are obliged by law to balance current expenditures and revenues. From time to time, this creates pressures to restrain current spending below optimum levels, and induces a strong tendency for capital expenditures to fluctuate in accordance with

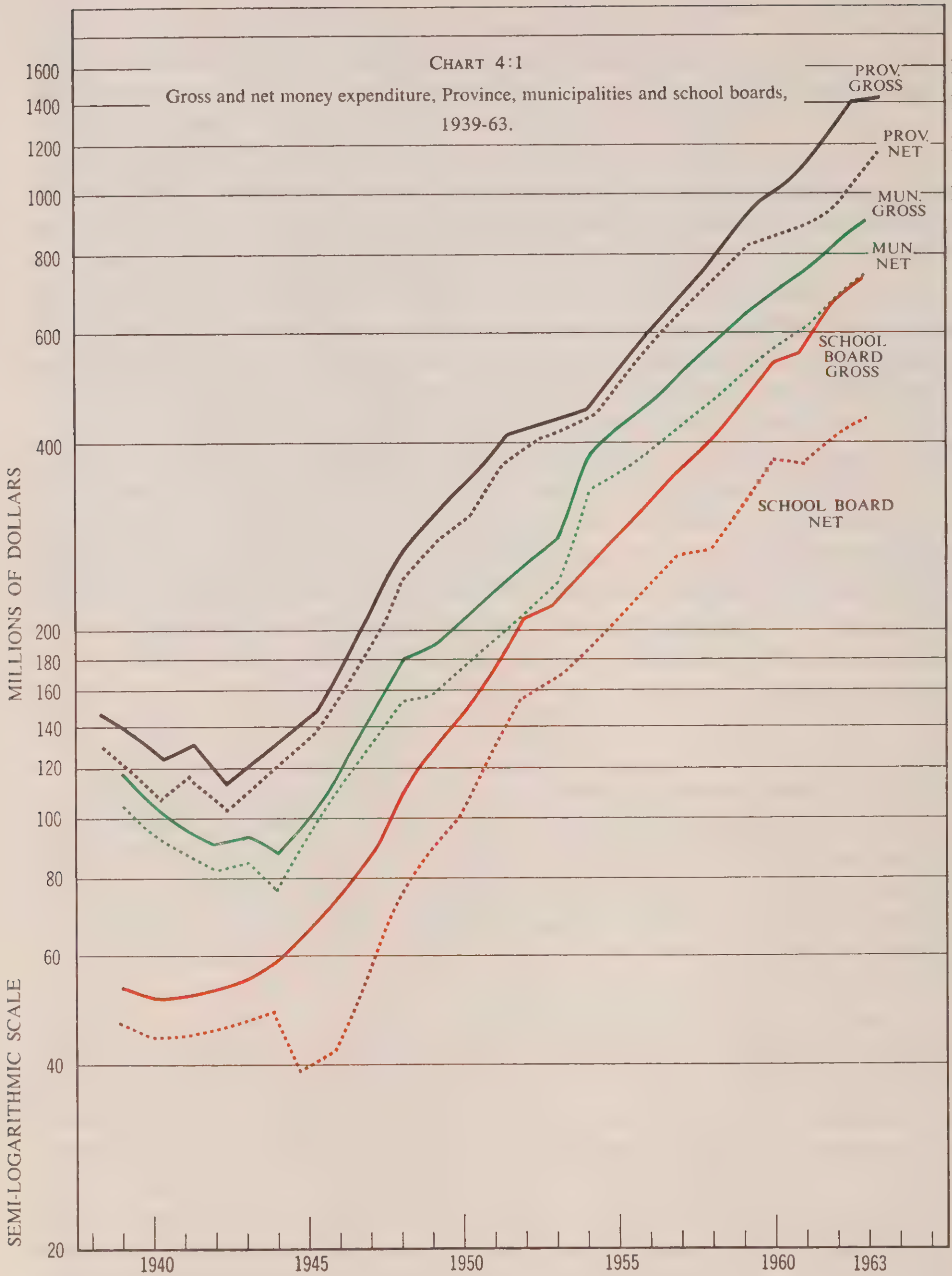
the intensity of the restrictions that current revenues place on current expenditures. In combining current and capital, our general expenditure figures are thus only a rough guide to municipal fiscal trends, but they are the best we could assemble under the circumstances.

23. In using figures that purport to measure general expenditures and revenues, we have found it advisable to make adjustments for three different types of distortions which would otherwise all combine to exaggerate the changes that have taken place. First, we make a distinction between gross and net expenditures. Gross expenditures represent the total outlays of one level of government regardless of whether that government is spending funds raised by itself or funds secured by transfer from the revenue system of another level of government. Net expenditure, on the other hand, is that part of a government's total spending that is financed directly by the level of government in question. This distinction is obviously important where, in a multi-level system of government such as ours, transfers between federal and provincial and between provincial and municipal authorities constitute vital elements of public finance and indicate, for any level of government, the gap between its expenditure commitments and the yield of its own revenues and borrowing. Next, if comparisons are extended over a lengthy time span, allowance must be made for the changing value of the dollar attributable to inflation. Thus, our tabulations begin with unadjusted absolute dollar figures, and are then converted to constant dollar figures. Finally, rising expenditures and revenues, even when rendered in constant dollars, do not allow for increases in population. Thus, an additional and more meaningful calculation can be based on per-capita figures.

EXPENDITURE PATTERNS

24. With these necessary preliminary explanations out of the way, we may look first at the expenditure side of the ledger. Chart 4:1 depicts the growth in gross and net money expenditures for the provincial government as well as for local governments, the latter divided between the municipalities and the school boards. No adjustments have been made for the changing value of the dollar or for population increases.

25. An examination of Chart 4:1 provides a summary of the total picture. Since the end of the war, the spending patterns of the three levels of government have shown a continuous increase. The reader should note, however, the rather wide divergence between the gross and net money expenditure figures. Gross money expenditures reveal a substantially faster rate of growth than net money expenditures. The differential in the rate of growth is accounted for by the substantial jump in the amount of grants made available by the more senior levels of government. Thus Chart 4:1 emphatically underlines an eight-fold increase in the gross money expenditure of municipalities since 1939, a ten-fold increase for the provincial government and a remarkable increase, apparently in excess of fourteen times the 1939 level, for the school boards.



Source: Tables 4:1 and 4:2

26. This initial picture needs to be refined by taking into account the grants of senior governments. Thus the net expenditure figures of school boards reveal a sharp rate of growth, but one that is nevertheless substantially less rapid than indicated by the gross data in Chart 4:1. In particular, the more than fourteen-fold increase since 1939 in the gross expenditures of school boards is seen as less than a ten-fold net increase. The net expenditure figures for the province and municipalities display a less extreme trend, but here the distinctions between gross and net expenditure trends are less great than for school boards. The ten-fold increase in gross provincial expenditure becomes a nine-fold increase in net expenditure, and the eight-fold rise in gross municipal expenditure is transformed into a seven-fold rise in net expenditure.

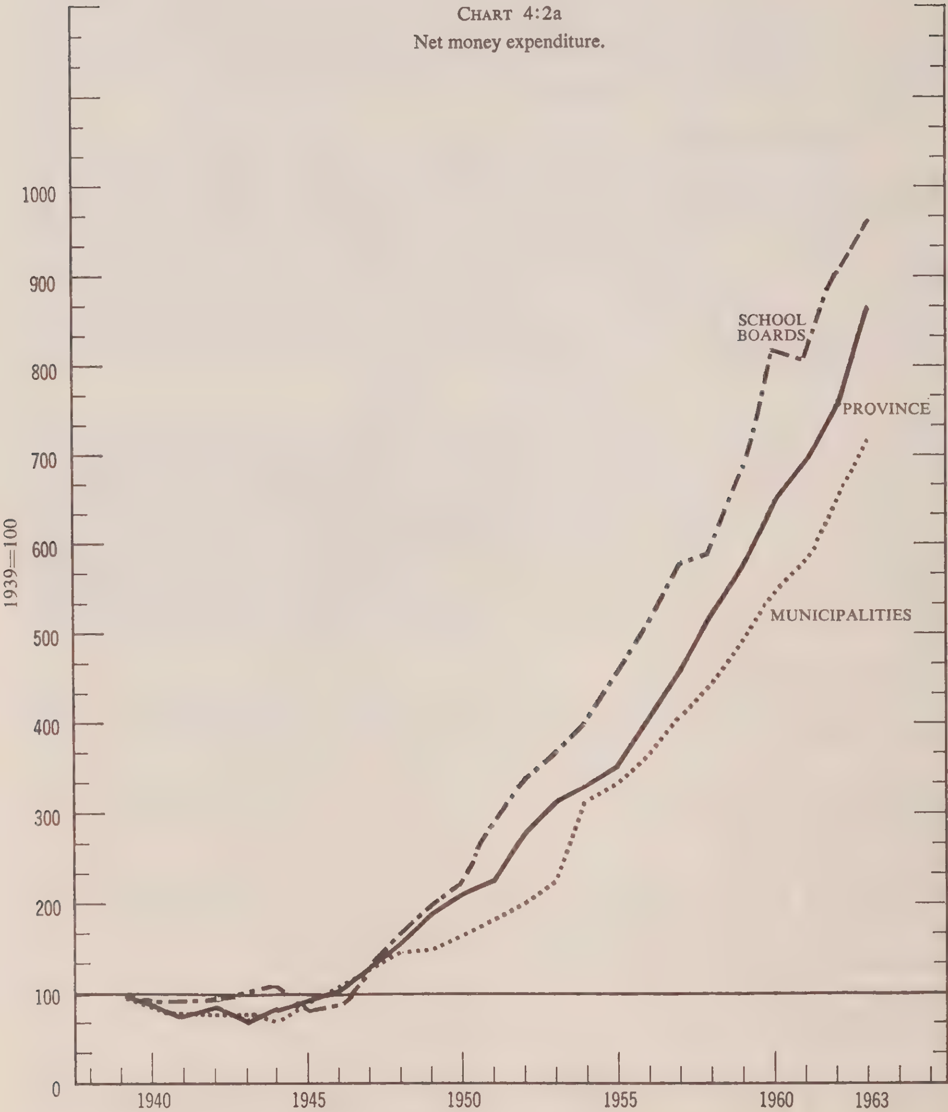
27. The index figures of Chart 4:2a reflect the general trends observed with respect to net expenditure. The use of index numbers enables us to have a precise idea of the rate of change in public expenditures. Among other things, for example, indexes emphasize the substantial curtailment of expenditures by the Province and by the municipalities during the war years. Notably, school board expenditures were never reduced by as much as were those of the Province and its municipalities. Since 1945, the expenditures of all three levels of government have been rising rapidly and continuously.

28. Incorporating an allowance for the changing value of the dollar—using the 1949 dollar as the base—puts the expenditure trends depicted in Chart 4:2a in a rather different perspective. From Chart 4:2b we find that provincial government expenditures have risen only a little more than three times their 1939 level in real terms, and those of the municipalities just less than three times. School board expenditures, though still showing the largest proportionate increase, nevertheless have increased less than four-fold, when measured in these constant dollar (real) terms during the period.

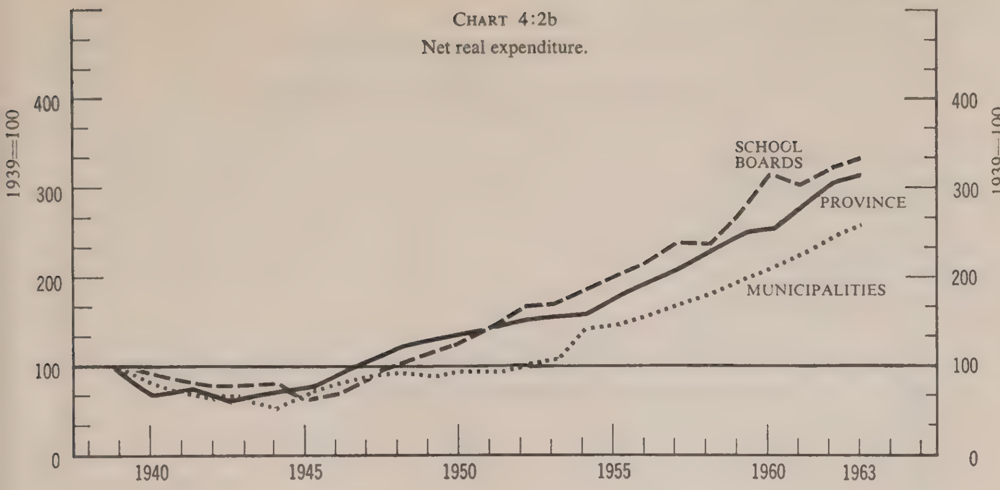
29. Having now interpreted net government expenditures in real terms, we shall make one further adjustment in the original data, to recognize the important factor of population growth. Accordingly, we measure the net real outlays of each level of government in per-capita terms, and the result, as seen from Chart 4:2c, is a much more conservative picture of the rising costs of government. Current net real per-capita expenditures for the provincial government are not quite double the 1939 figure; for the municipalities the figure is only half as much again as in 1939; and school board expenditures show the highest rate of increase, but are still less than double the figure for 1939.

30. The above trends concern net expenditure only. It may now be desirable to sketch emergent trends in government expenditure not in net terms, but rather according to where ultimate spending is incurred by level of government. This is portrayed in Charts 4:3a, 4:3b and 4:3c, which deal with gross provincial expenditure less any grants paid to municipalities and school boards, together with gross municipal and school spending, that is to say including grants received from the Province. These charts respectively trace expenditures in the same terms

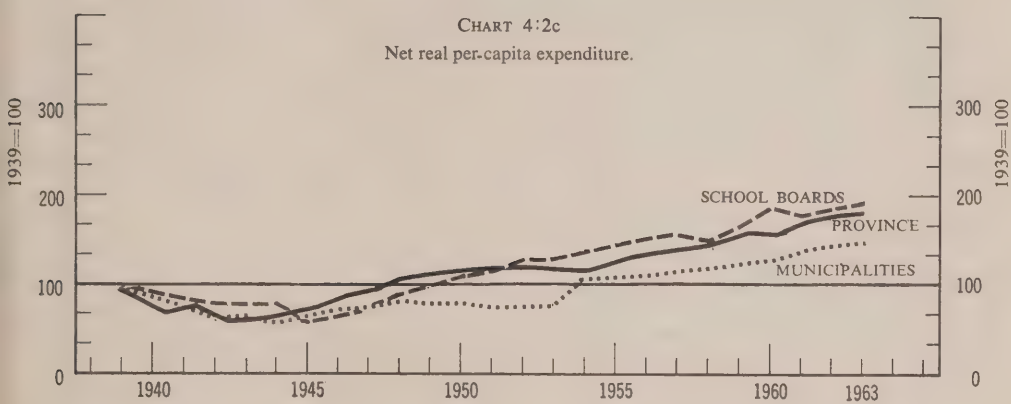
CHART 4:2
Indexes of expenditure: Province, municipalities and school boards, 1939-63.



Source: Table 4:2



Source: Table 4:4



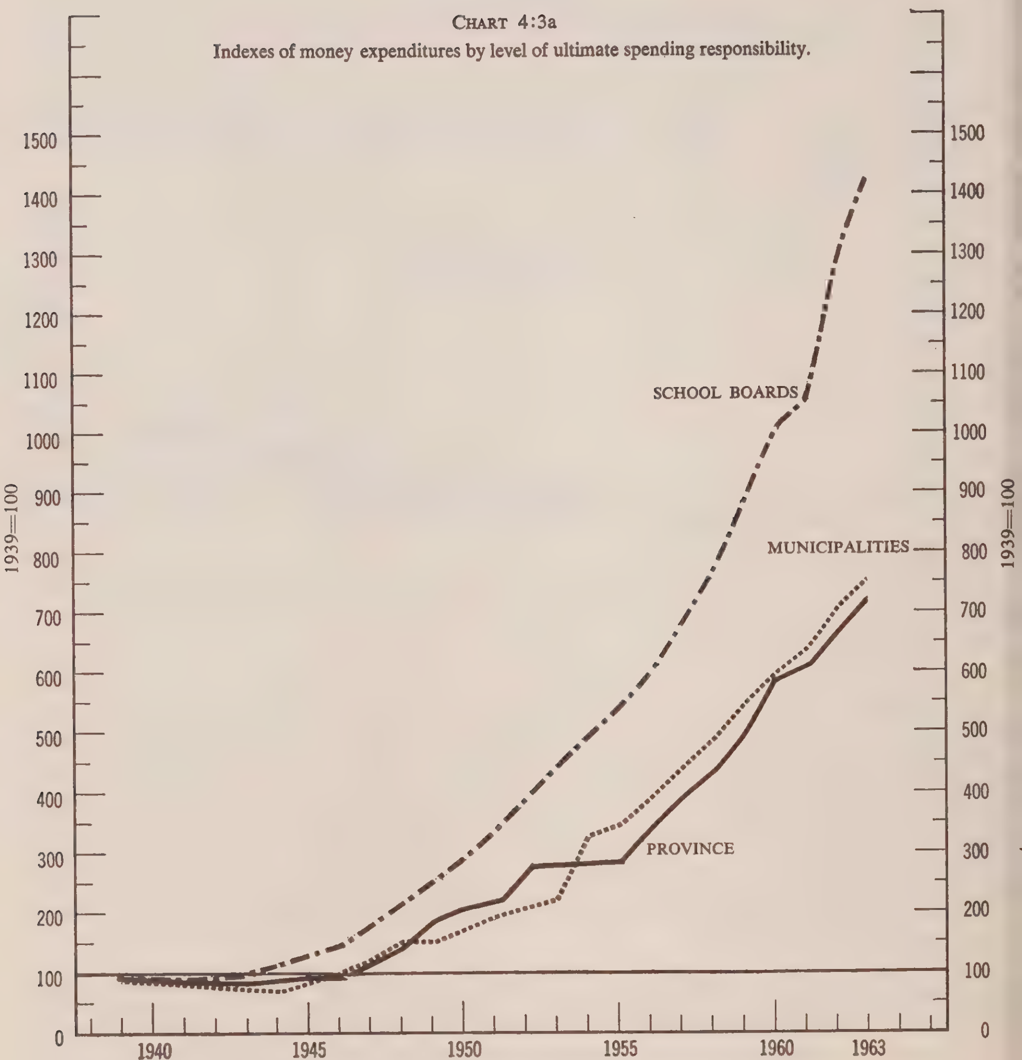
Source: Table 4:5

as Charts 4:2a, 4:2b and 4:2c, namely money, real, and real per capita. The principal ensuing difference is to highlight the spending role of school boards and municipalities as the jurisdictions of ultimate disbursement, by contrast to the position of the Province as a major grant-disbursing agency. From Chart 4:3c, real per-capita school board spending is seen to be almost three times, rather than twice its 1939 level, while that of the municipalities approaches twice its 1939 level, exceeding slightly the provincial, which in turn is about one and one-half times its 1939 level.

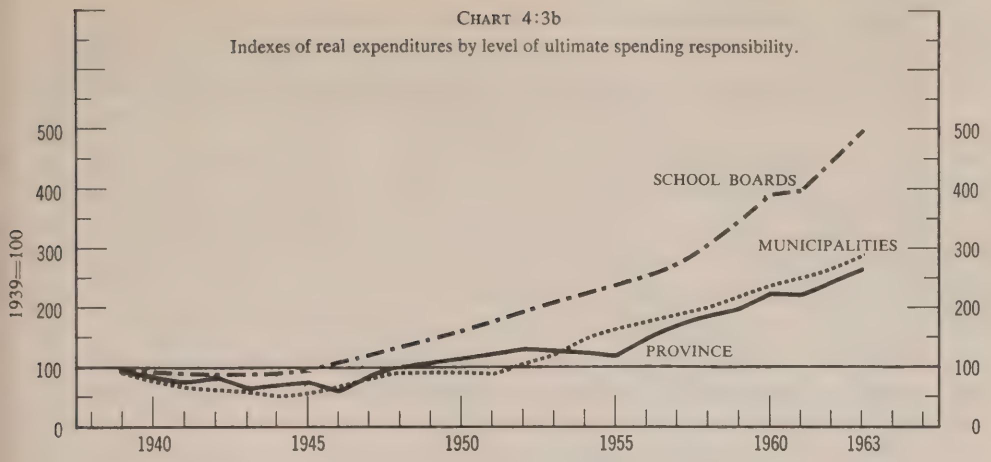
31. A somewhat different but related perspective is provided in Chart 4:4. Here, the net expenditures of provincial and local authorities on goods and services are related to the estimated provincial domestic product. From the chart, we can observe that combined government expenditures on goods and services had relatively less significance for the provincial economy during and

CHART 4:3
Government expenditures by level of ultimate spending responsibility, 1939-63.

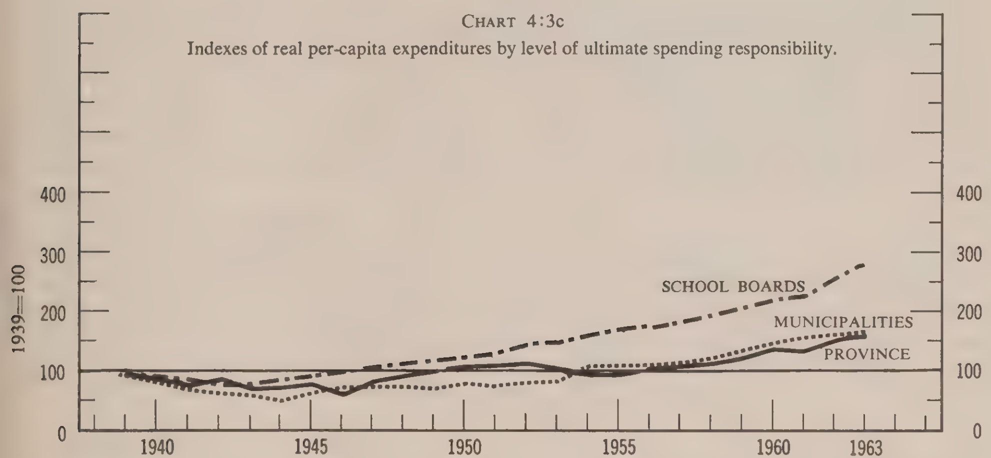
CHART 4:3a
Indexes of money expenditures by level of ultimate spending responsibility.



Source: Table 4:6a

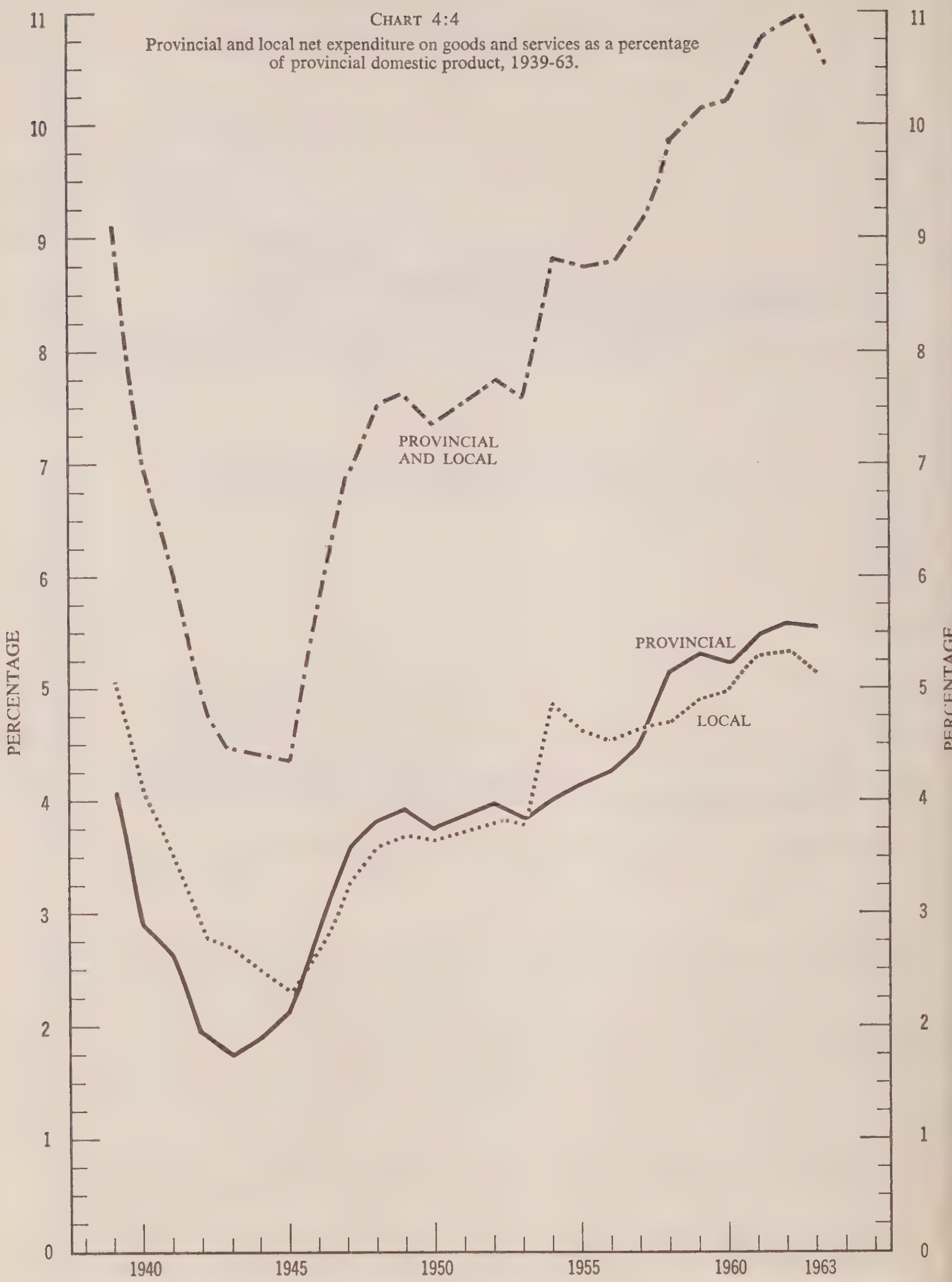


Source: Table 4:6b



Source: Table 4:6c

immediately after the war years than in 1939. Indeed, the over-all 1939 position was not re-established until as late as 1957. Thereafter, combined public expenditures occupied a proportionally more important place, attaining in the sixties approximately 11 per cent of the real provincial domestic product. Among the net expenditures of the several levels of government, those of the Province not only made the more rapid recovery to the 1939 level, attaining it in 1954, but they also accounted for proportionately more of the increase than similar net local expenditures, which did not recover their 1939 level until 1961. We already know from Charts 4:3a, 4:3b and 4:3c that the inclusion of grants in the expenditures of the level of government ultimately spending the funds has the effect of deflating provincial spending, boosting the municipal rate of spending increase to second place, and accentuating still further the relative rise in school board outlays. We restrict ourselves to the net expenditure concept in Chart 4:4 only because our



Source: Table 4:7

prime concern is to distinguish the proportion of their expenditure programs that provincial and local governments are able to finance out of their own resources from that for which they are dependent upon transfers of funds from the federal government.

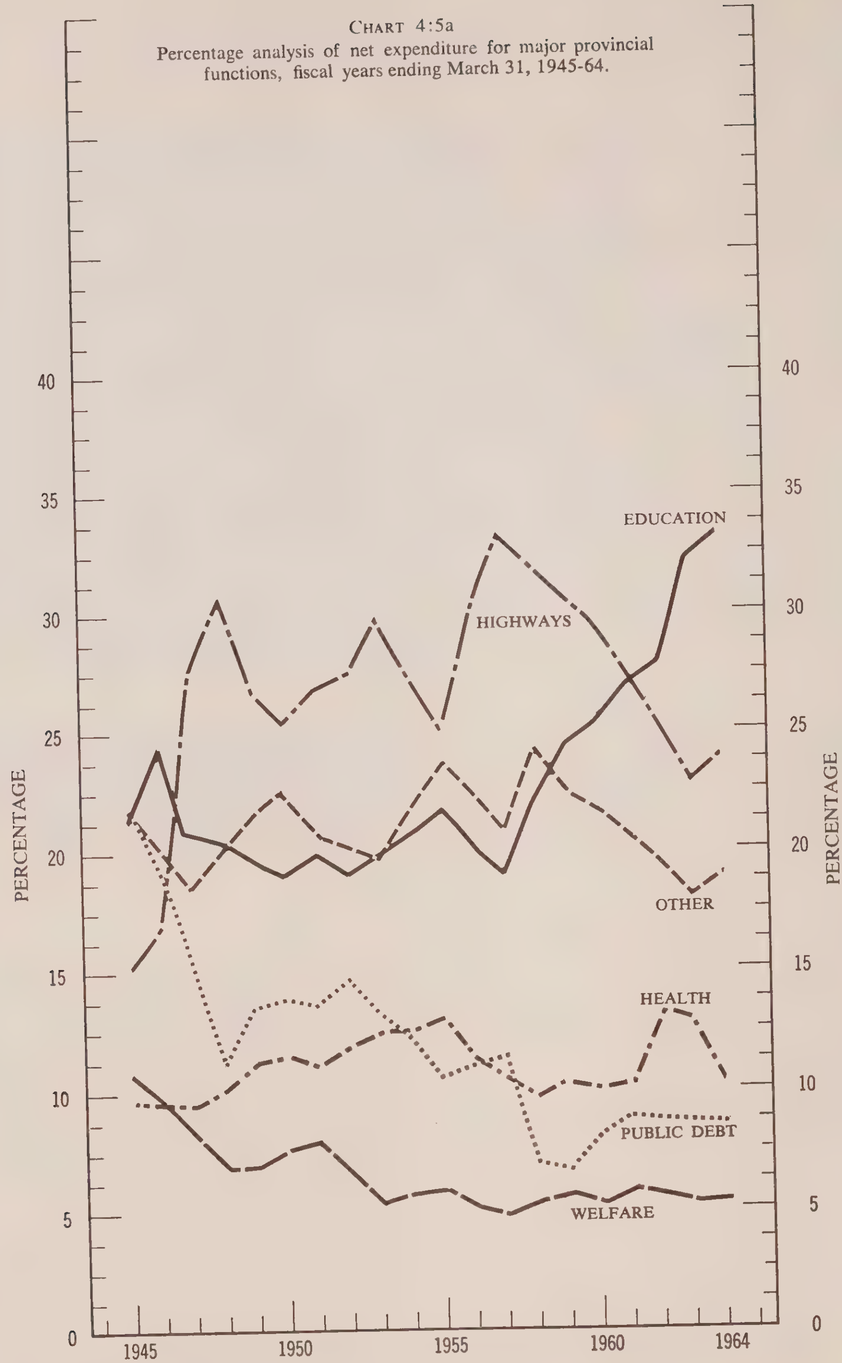
32. The conclusions that may be derived from the foregoing analysis of the general expenditure pattern of provincial and local governments in Ontario may now be quickly summarized. Unadjusted gross money figures, which show a respective ten-fold, eight-fold and fourteen-fold increase in provincial, municipal and school board spending, greatly exaggerate the picture. This is in part because they count government grants twice. Account may be taken of grants by referring either to net government expenditure, or to government spending by the level of jurisdiction ultimately disbursing funds. The latter method shows that school board and municipal spending has increased at a somewhat faster rate than that of the Province, the former places the Province ahead of the municipalities. When further allowance is made for changes in the value of the dollar and population growth, we find that at no level of government has per-capita expenditure more than doubled, save for school boards if their expenditures include grant receipts. Finally, if provincial, municipal and school board net real expenditures are combined and taken as a percentage of provincial domestic product, there is no dramatic shift from the 1939 situation. There has, in fact, been a rise over the whole period of only 2 percentage points, that is from approximately 9 to 11 per cent.

33. While these conclusions set the combined provincial and local government expenditures in proper perspective, one cannot discount their impact on government services. The significance of the two-fold increase in net real expenditure per capita for the various services can be demonstrated by breaking down money figures into their several components.

EXPENDITURE BY FUNCTION

34. A functional classification of provincial government net expenditures is presented in Charts 4:5a and 4:5b. Three major areas of spending that leap immediately to the eye are education, health and highways. In the two decades following the end of the war, education and highways have vied with one another in claiming the major share of the provincial budget, a rise in the proportion secured by one seeming to produce reductions in the share allocated to the other. In 1945, over one-third of the budget was devoted to these two functions; twenty years later they together accounted for considerably more than half the budget. Education alone, if expenditures on universities are included, has come to account for more than one-third of the Province's net ordinary expenditures. Highways, after holding first place uninterruptedly from 1947 to 1961, are now entrenched in second, accounting for between one-quarter and one-fifth of provincial expenditure. Among the remaining major functions, health, under the impetus of provincial contributions to hospital and medical insurance, has moved firmly into third place, a position it has held since 1958, with between 10 and 15 per cent of recent

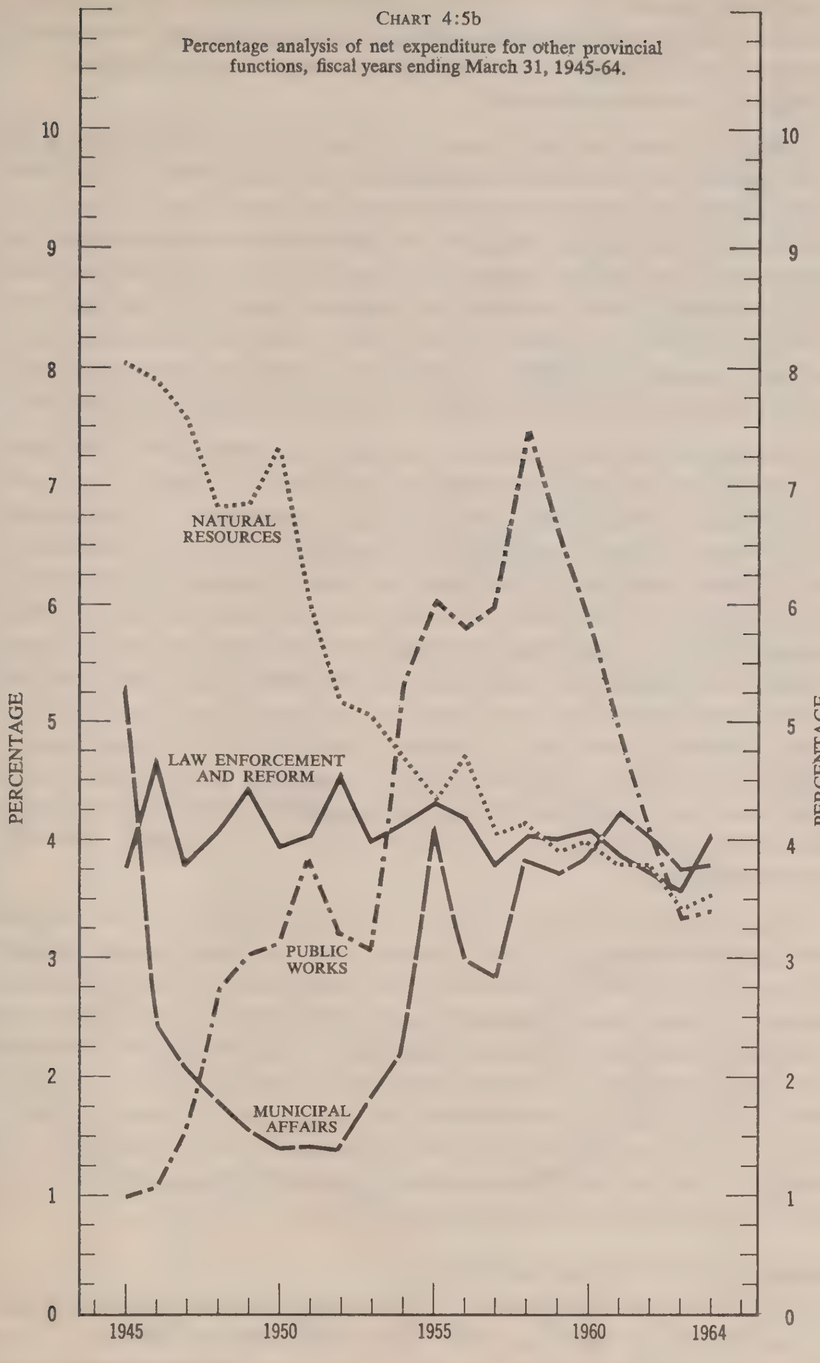
CHART 4:5a
Percentage analysis of net expenditure for major provincial functions, fiscal years ending March 31, 1945-64.



Source: Table 4:9

CHART 4:5b

Percentage analysis of net expenditure for other provincial functions, fiscal years ending March 31, 1945-64.



Source: Table 4:9

budgets allocated to it. The proportion of the budget absorbed by interest on the public debt has dropped over a period of twenty years from first place to a low fourth place. Despite the fact that welfare currently occupies fifth place in the order of spending, its proportional share of the budget has declined from roughly 10 per cent to 5 per cent of the total.

35. Although there has been a steady increase in the absolute sums devoted to the other segments of government expenditure, the proportion of the total each enjoys has tended to decline or remain relatively static. From Chart 4:5b, we observe that the traditional functions of law enforcement and reform have enjoyed a modest share of the budget, ranging between 3.5 and 4.5 per cent of the total. Similarly, municipal affairs spending has averaged about 3.5 per cent; that for public works has been less stable, ranging from a high of 7.5 to a low of 1 per cent and now standing at roughly 3.5 per cent. Natural resources, for their part, have experienced a fairly steady decline in their relative share of the budget.

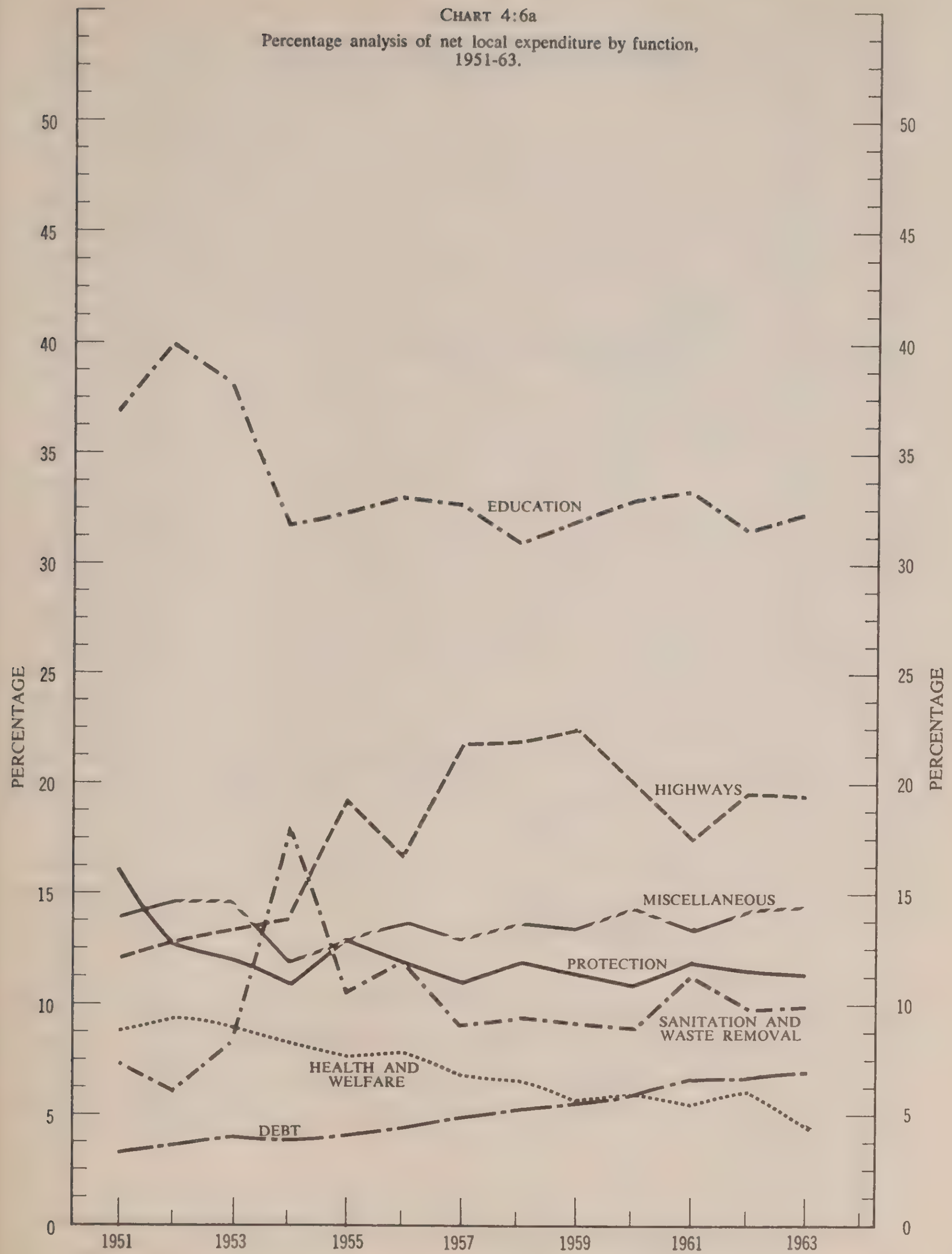
36. Shifting to the local scene, we present in Charts 4:6a and 4:6b two closely related sketches of local spending by function. Chart 4:6a depicts the relative position of major local functions as a percentage of net expenditure; Chart 4:6b traces relative position as a percentage of gross expenditure. Read together, the two charts enable the reader to grasp the impact of provincial grants on local spending responsibilities. Whether as a proportion of net or gross local expenditure, education and roads persistently tower above all others. Since the early fifties, these two together have generally accounted for 50 per cent or more of net local expenditures, and for 60 per cent or more of gross expenditure. That these two functions constitute a relatively larger share of gross than of net expenditure is testimony to the much larger provincial grant funds allocated to these purposes than to others. Of the remaining functions, all but health and welfare, where grant funds also concentrate, constitute a smaller share of gross than of net expenditure.

37. In general, it can be said that the relative shares of net expenditure allocated to each of the major local functions have tended to remain rather more stable than either the relative shares of gross expenditure or, for that matter, the corresponding items in the provincial budget. This, of course, is because provincial grants change from time to time in accordance with new policy commitments, with consequent time lags and fluctuations that are reflected, for example, in the noticeably wider swing of the education line in Chart 4:6b than in Chart 4:6a. The relative stability of proportional commitments in terms of local net expenditure underlines the residual nature of the responsibilities municipalities and school boards shoulder as the level of government closest to the people.

COMPARISON WITH OTHER PROVINCES

38. Before turning our attention to the revenue sources from which governments have sought to meet the rising expenditures described above, it will be useful to place Ontario's spending pattern in a broader, national perspective. Chart 4:7 enables us to relate increasing provincial and local expenditure to the

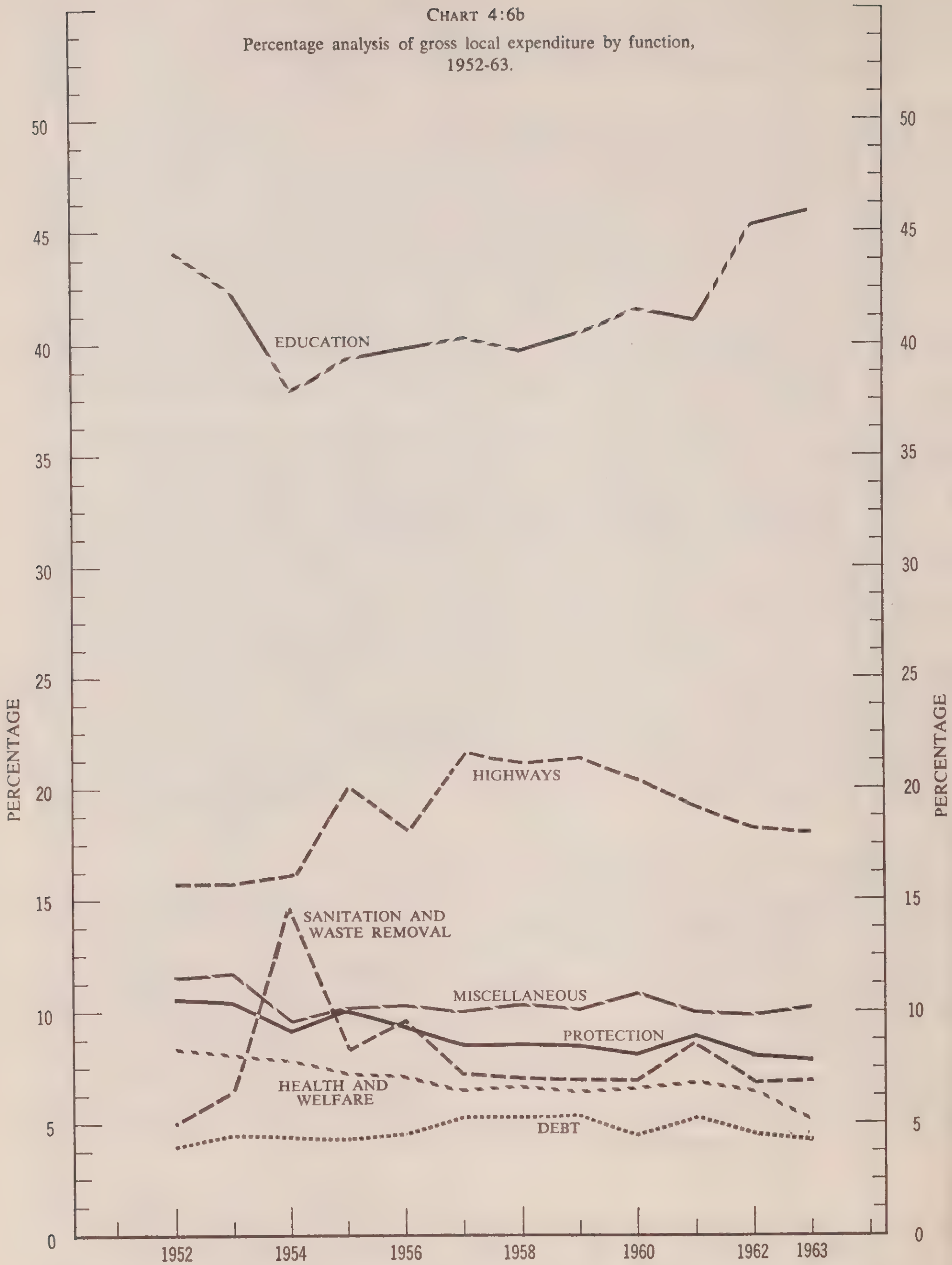
CHART 4:6a
Percentage analysis of net local expenditure by function, 1951-63.



Source: Table 4:11

CHART 4:6b

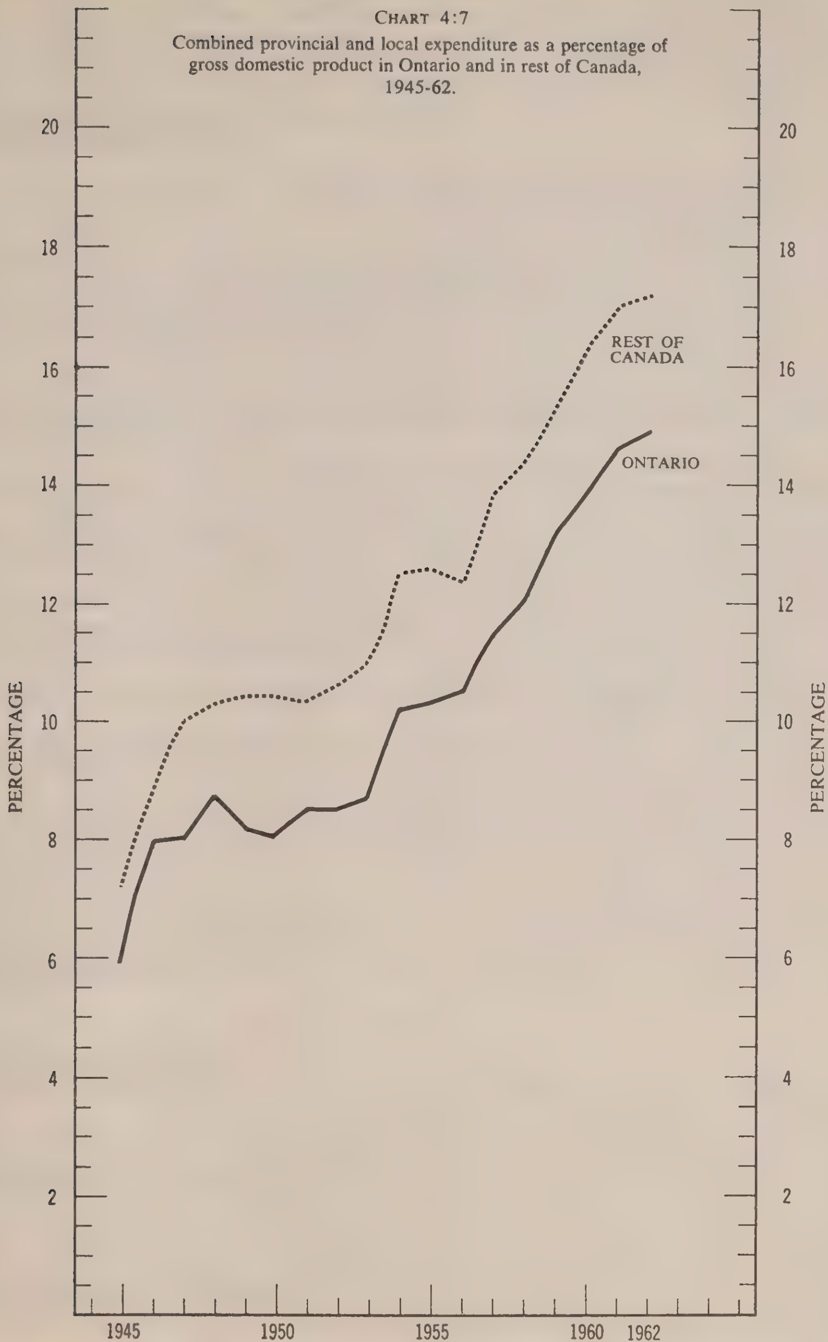
Percentage analysis of gross local expenditure by function, 1952-63.



Source: Table 4:13

CHART 4:7

Combined provincial and local expenditure as a percentage of gross domestic product in Ontario and in rest of Canada, 1945-62.



Source: Table 4:14

CHART 4:8

Combined provincial and local net general expenditure as a percentage of personal income, by province, 1952 and 1962.

Source: Table 4:15

growing productivity of the country. It is apparent from the chart that spending by all Canadian provinces and local authorities has increasingly outpaced the rate of growth in provincial domestic product. In Ontario, combined provincial and local net general expenditures, taken as a percentage of provincial domestic product, have risen almost without remission from 5.8 per cent in 1945 to 14.9 per cent in 1962.

39. A related point is that the combined provincial and local net general expenditures of the Province of Ontario have consistently represented a lower proportion of the provincial domestic product than the average for all other provinces combined. This differential is attributable to the high productivity of the Province of Ontario, whose domestic product represents approximately 40 per cent of the total production of all Canadian provinces. Nevertheless, it should be noted that Ontario's net general expenditures have apparently been growing at a slightly more rapid rate than the combined expenditures of the other provinces.

40. Chart 4:8 provides another measure of Ontario's position relative to that of the other provinces. In so far as total personal income can be used as a measure of the capacity of the public to sustain a particular level of government spending, we may note two points that emerge from this chart. First, all provinces, Ontario not excepted, have been raising their governmental expenditures at a rate faster than the growth of total personal incomes within their respective jurisdictions. However, both in 1952 and in 1962, only Manitoba's net general government expenditure taken as a percentage of personal income was lower than Ontario's.

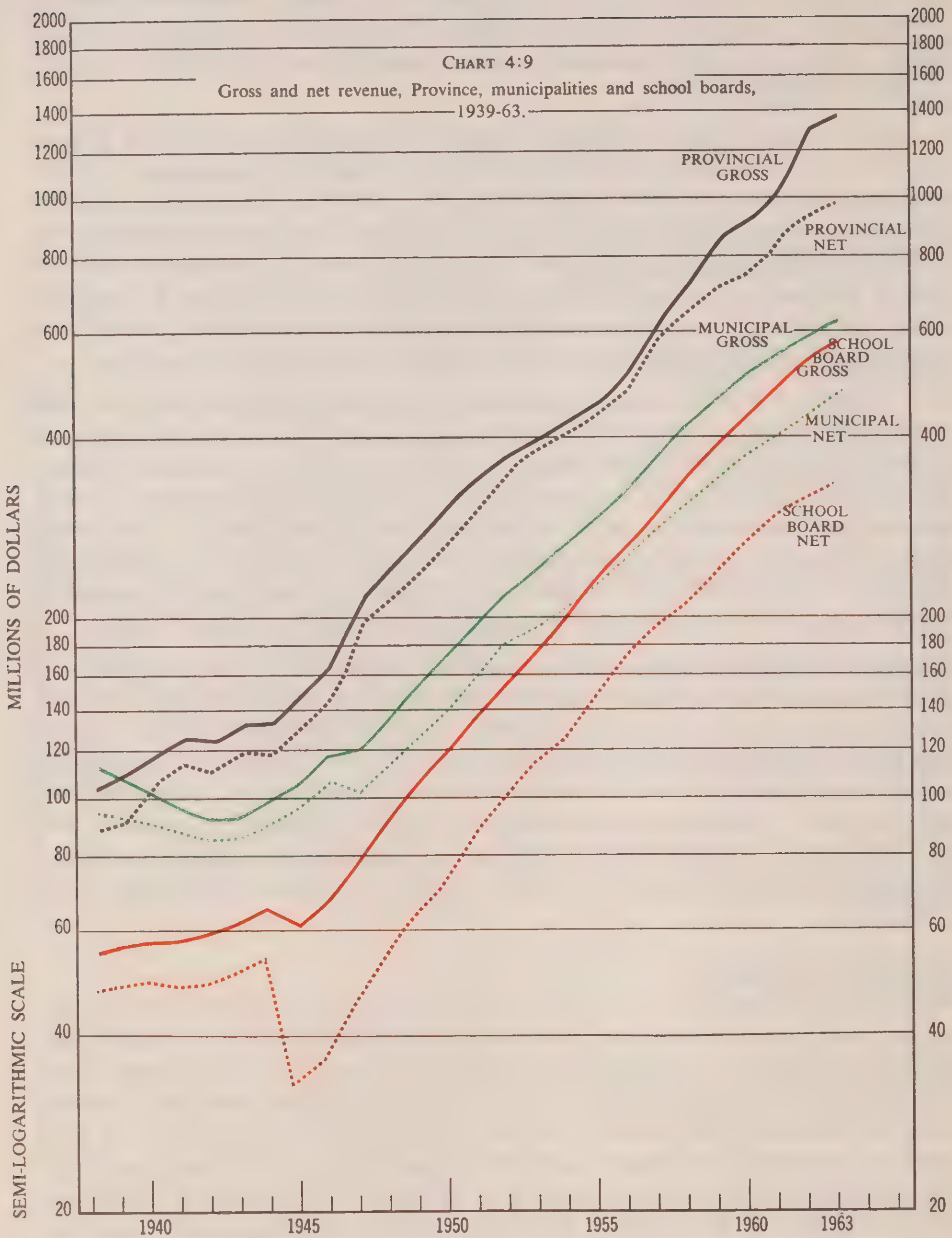
41. It would thus appear that government expenditure in all provinces has been increasing at a rate faster than the growth rate of either provincial domestic product or total personal incomes. However, the relatively larger domestic product and higher personal incomes in Ontario have meant that government expenditure as a percentage of these two factors has not been as high as in all other provinces taken together. Over against this conclusion we must set out the fact, which may be verified in the appendix (Table 4:16), that the per-capita net general expenditure in Ontario is the third highest in Canada, exceeded only by Alberta and British Columbia.

REVENUE PATTERNS

42. Governments, of course, are not only spenders but, as all legislators are aware, must concern themselves with finding "ways and means" to finance their expenditure programs. Consequently, we now turn to the revenue sources—both provincial and local—that have had to be tapped to keep pace with the mounting costs of government in Ontario. For the Province there are hundreds of these revenue sources, ranging from innumerable minor items such as fees charged for the registration of jockeys, the licensing of elevators and the sale of publications to a few major ones such as taxes on income and on various classes of expenditure. For their part, municipalities and school boards enjoy only one major revenue source, the property tax, supplemented for municipalities by a host of minor revenues.

CHART 4:9

Gross and net revenue, Province, municipalities and school boards, 1939-63.



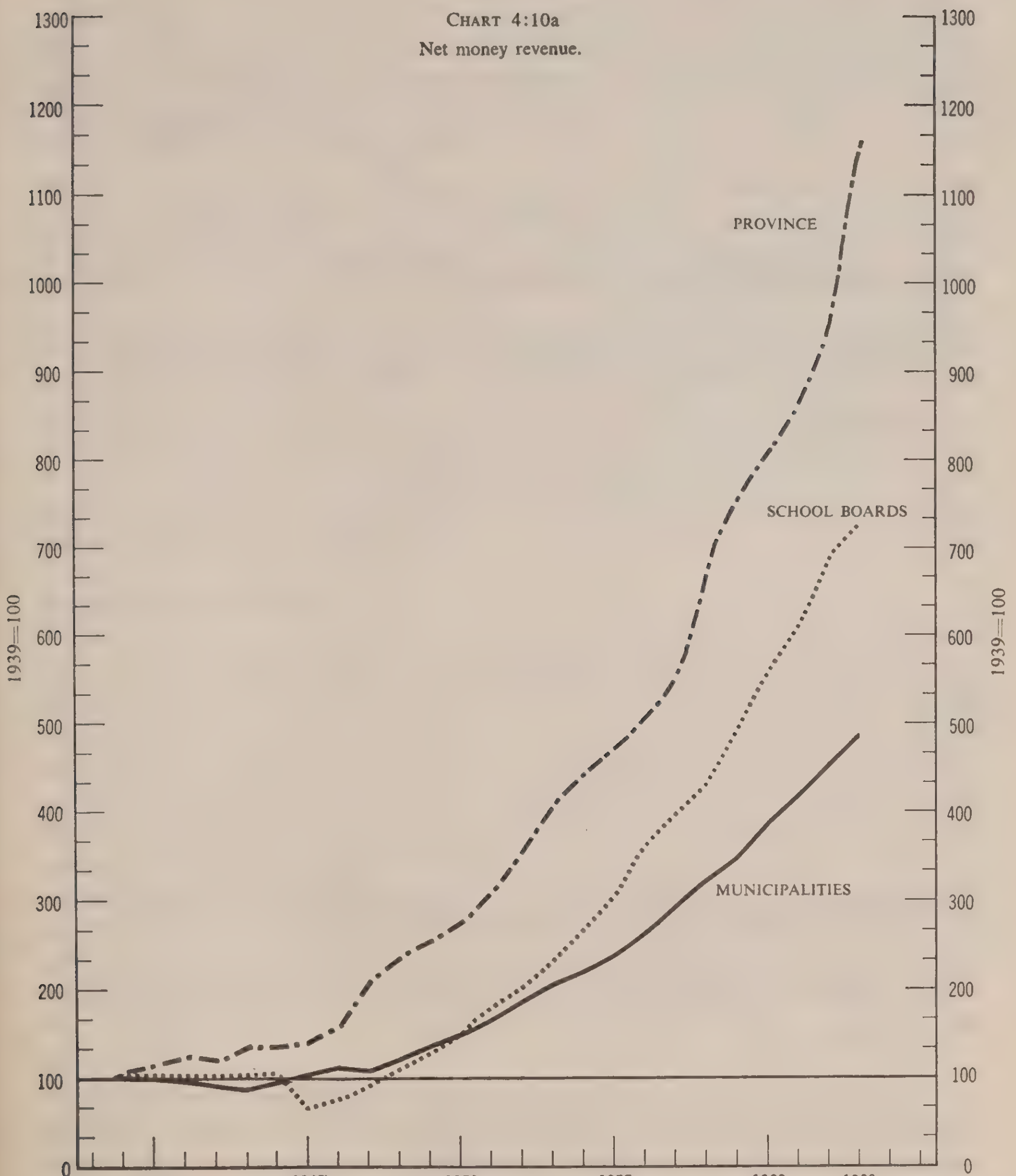
Source: Tables 4:20 and 4:21

CHART 4:10

Indexes of revenue: Province, municipalities and school boards, 1939-63.

CHART 4:10a

Net money revenue.



Source: Table 4:21

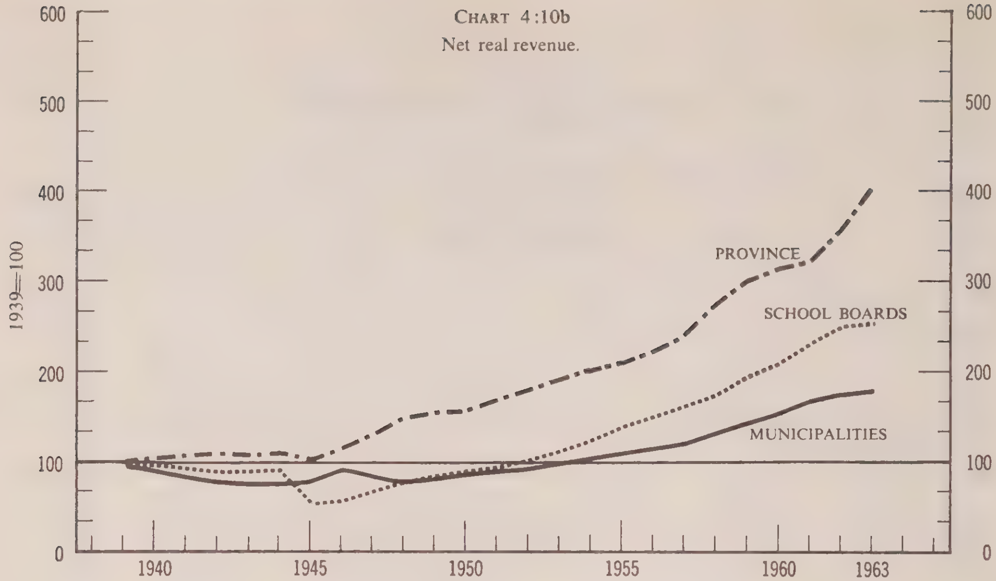


CHART 4:10b
Net real revenue.

Source: Table 4:22

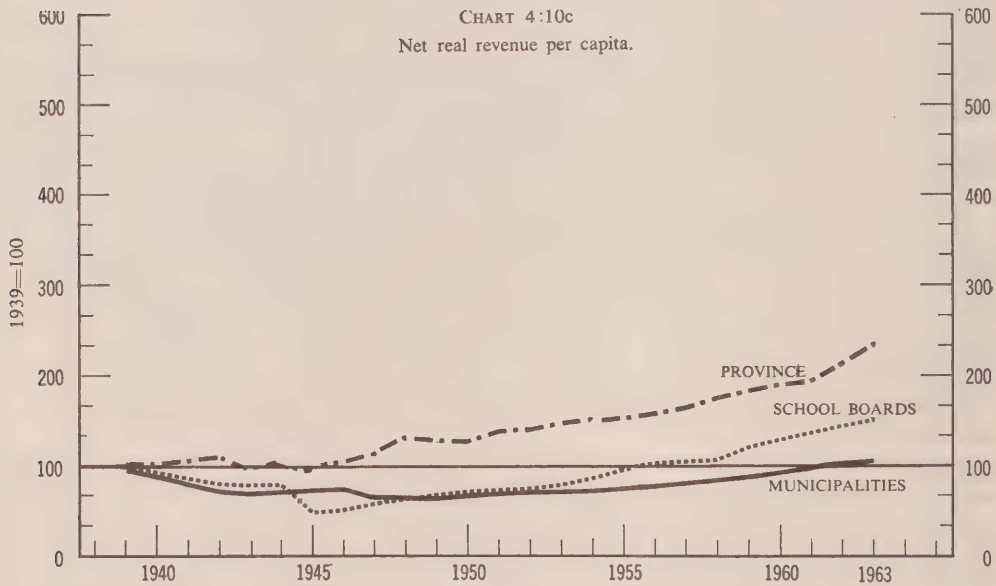


CHART 4:10c
Net real revenue per capita.

Source: 4:23

43. Chart 4:9 reveals that the gross revenue of the Province, which reflects the yield from the provincial revenue system plus transfers of federal funds, has increased thirteen-fold since 1939. The growing divergence that the chart reveals between gross and net provincial revenue attests the enhanced importance of federal transfer payments. Provincial net revenue, a measure that excludes federal transfers, has multiplied twelve-fold over the same period. This appreciable in-

crease underlines the point that, despite constitutional limitations to use only "direct taxation within the Province", flexible interpretations and official ingenuity have managed to devise a variety of taxes designed to generate revenues sufficient to meet expenditure programs.

44. On the municipal and school front, Chart 4:9 reveals that between 1939 and 1963 gross money revenue of municipalities increased almost six-fold, while school board revenue increased more than ten-fold. However, because of extensive reliance on grants from the Province, municipal and school net revenues show a much less marked increase: less than a five-fold rise for municipalities and only a seven-fold rise for the school boards.

45. The rate at which provincial, municipal and school revenues have been increasing is depicted in Charts 4:10a, 4:10b and 4:10c, which indicate indexes of net money revenue, net real revenue and net real revenue per capita. As with expenditures, taking account of changing dollar values and population growth sharply reduces the upward trend of net revenue when reported in simple money terms. From Chart 4:10c, it will be observed that on a net real per-capita basis, provincial revenue is barely 250 per cent of its 1939 level, and did not double its 1939 mark until 1961. Municipal revenue, meanwhile, actually experienced a substantial relative decline after 1939, returning to the 1939 level only as recently as 1961. School board revenue, for its part, displayed an even more marked decline but recovered its 1939 position in 1956 and has now expanded to nearly half as much again as the 1939 mark.

SOURCES OF REVENUE

46. Turning now to the major classes of provincial revenue, we find from Chart 4:11a that expenditure taxes have persistently dominated the picture, never falling below 40 per cent of net ordinary revenue, and on occasion approaching or even passing the 50 per cent mark. Taxes on personal and corporate income, partly under the impetus of increasingly favourable federal-provincial arrangements, have consolidated an ever firmer grip on second place. The introduction of the retail sales tax barely depressed their 1961 peak of 41 per cent, reducing it to between 35 and 38 per cent. Wealth taxes in the form of death duties are a poor third. They exhibit a pattern of steady decline in relative importance, and have hovered at or slightly below 5 per cent of net ordinary revenue since 1959. Natural resource revenues, recently in the order of 3.5 per cent of the total, stand an unimpressive fourth. The host of miscellaneous provincial revenues tend to fluctuate in the 10 to 15 per cent range, before dipping to roughly 8 per cent after 1962.

47. Chart 4:11b offers a detailed look at the principal components of expenditure-based provincial revenues. These, of course, are the retail sales tax, introduced in 1961, and the much older gasoline tax, motor vehicle permits and Liquor Control Board profit. The retail sales tax rivalled the gasoline tax in importance from the moment of its inception, and will achieve unchallenged pre-eminence at roughly 22 per cent of total revenue in the wake of the 1966

rate increase. As is to be expected, gasoline tax, liquor and motor vehicle revenues all declined in relative importance after the introduction of the sales tax, and now represent approximately 15, 8 and 5 per cent of ordinary revenue respectively. The reader will observe that, generally speaking, a rough 1:2 ratio between liquor and gasoline tax revenues has been sustained.

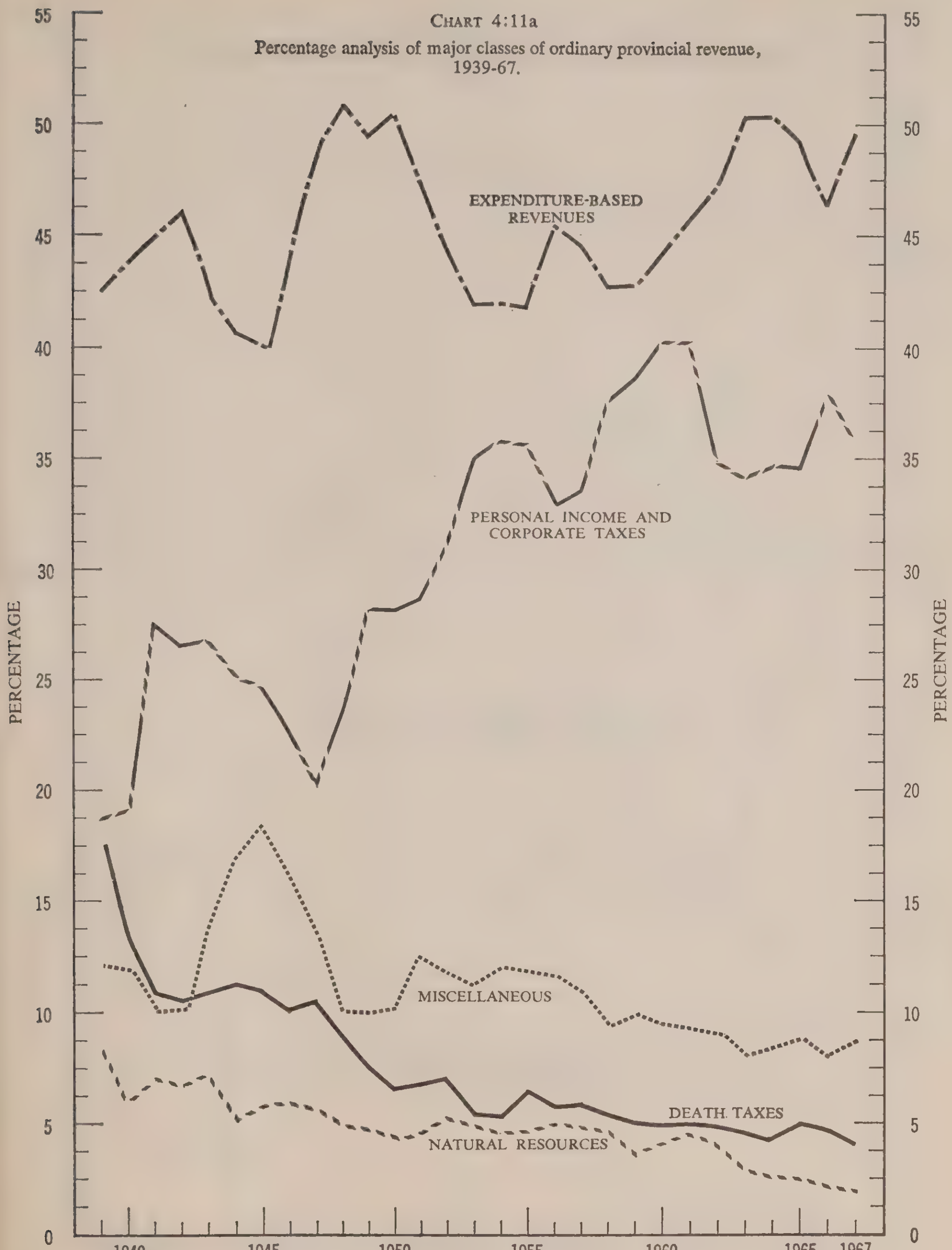
48. With respect to provincial taxes on personal and corporate income, second in importance only to the expenditure-based revenues, it should be noted that during the war years, the provinces surrendered their taxing jurisdiction to Ottawa in return for unconditional payments, which are included in Chart 4:11a. Following the return of peace, the Province of Ontario refused to sign the 1947 tax-rental agreements. Throughout the ensuing five-year period, Ontario did not collect any provincial personal income tax, but did impose a 7 per cent tax on corporation income. The Province subsequently decided to adhere to the 1952 tax-rental agreements, and for the following five years the category of personal and corporate income taxes shown in Chart 4:11a combines rental revenues paid in lieu of tax with grants received under the escalator clause. Ontario reimposed its own corporation income tax in 1957, and has since derived personal income tax revenue which the federal government rebates to its taxpayers under the abatement provisions of the tax-sharing and fiscal arrangements.

49. As previously noted, the Province of Ontario receives substantial transfer payments from the federal government. A portion of these—moneys collected by Ottawa under various tax agreements—have been included in the ordinary revenues of the Province examined in Chart 4:11a, because federal tax collectors act as agents of the Province and, since 1962, have operated under the authority of a provincial statute. Also included in ordinary provincial revenue are the Province's 25 per cent share of the federal estate tax, an additional amount of slightly over $1 million representing the provincial share of federal income tax collected from privately owned public utility corporations, and the fixed annual statutory subsidies of about $5 million granted at the time of Confederation. Much larger than any of these are the federal transfers made under conditional grant and shared-cost programs. They amounted to $282 million in 1963-64 and are expected to be in the neighbourhood of $350 million in 1966-67, rivalling provincial revenue from the personal income tax. These transfers are excluded from ordinary revenue, but their existence is attested by the gap between gross and net provincial revenues.

50. One major source of provincial revenue that has not been mentioned thus far because it is not entered in the Public Accounts is the hospital premium levied by the Ontario Hospital Services Commission. The premium, which may be thought of either as a tax or as a service charge, currently raises about $157 million annually. No broad survey of government revenue can overlook this important though somewhat isolated source of funds that has the merit of growing steadily with the expansion of population, and responding immediately and predictably to any administered alteration in the size of premiums.

CHART 4:11a

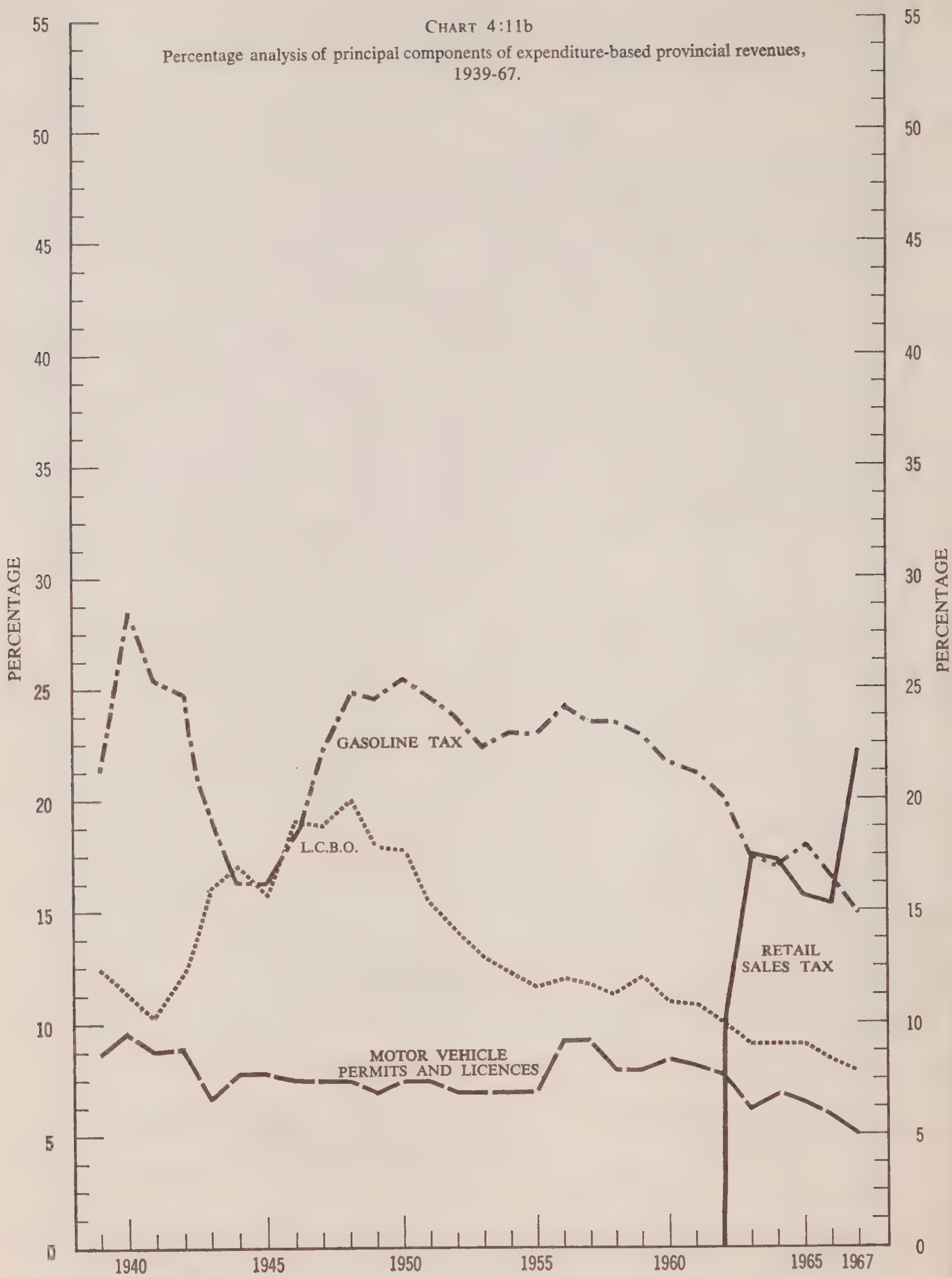
Percentage analysis of major classes of ordinary provincial revenue, 1939-67.



Source: Table 4:18

CHART 4:11b

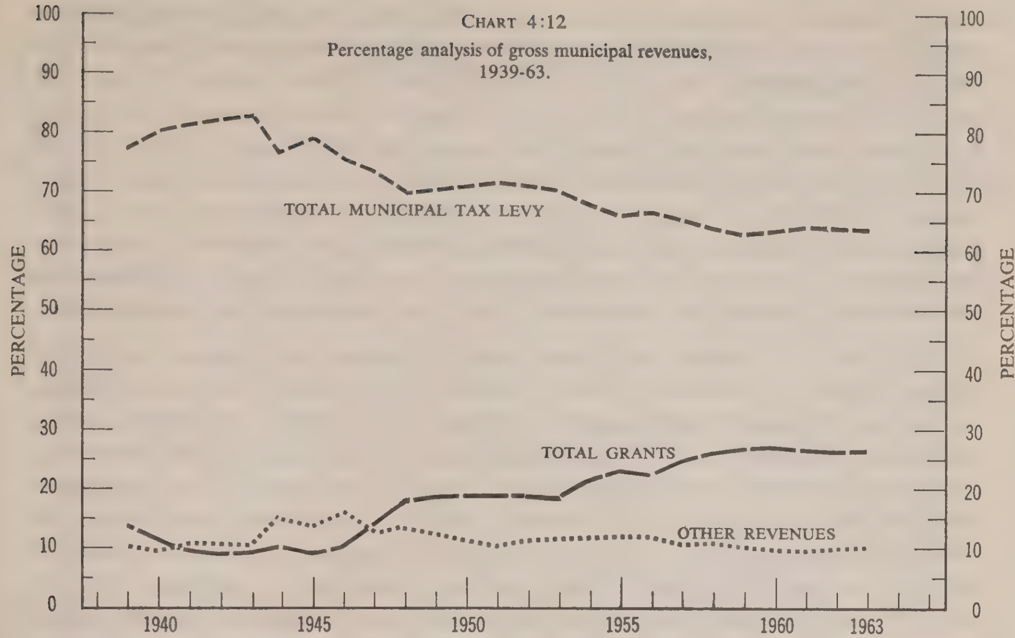
Percentage analysis of principal components of expenditure-based provincial revenues, 1939-67.



Source: Table 4:18

CHART 4:12

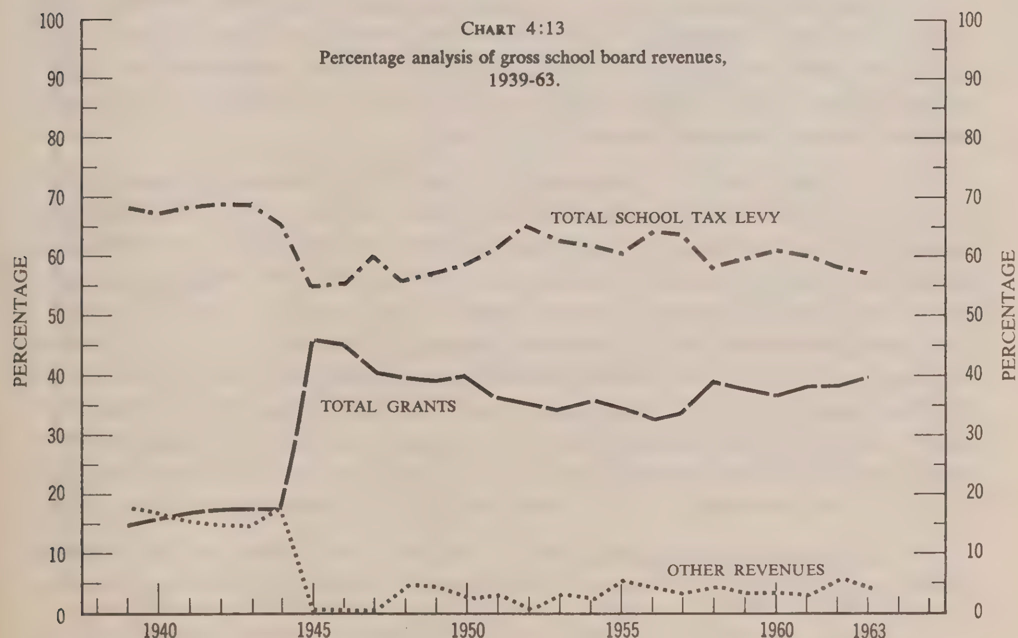
Percentage analysis of gross municipal revenues, 1939-63.



Source: Table 4:24

CHART 4:13

Percentage analysis of gross school board revenues, 1939-63.



Source: Table 4:25

51. There remains for brief consideration a breakdown of municipal and school revenues. Charts 4:12 and 4:13 indicate that the major source of gross revenue for both municipalities and school boards has been the real property tax. For the municipalities, this source has in the past provided between 75 and 80 per cent of the total, but has more recently declined to about 64 per cent. Revenues from sundry fees, fines and licences have ranged between 10 and 15 per cent of the total, but in recent years have remained steady at somewhat less than 10 per cent of all revenue. Clearly, the relative decline in contributions from local sources has necessitated a steady, substantial increase in the transfer of funds from the Province. The result has been that grants from senior levels of government now account for more than one-quarter of the gross revenues of the municipalities.

52. Chart 4:13 reveals that school board revenues have followed municipal revenue patterns in somewhat parallel fashion. The property tax has dominated the sources of school board revenue, although it has always provided a lower proportion of school than of municipal revenue, seldom rising above two-thirds of the total and in recent years dropping to about 57 per cent. At the same time, there has been a more significant decline in revenues from other local sources; in 1939 they accounted for 17.5 per cent of total revenues and have now dropped below 4 per cent of the total. These particular revenues are composed in large part of tuition fees paid to school boards by other local authorities, including other school boards.[1] Their decline can be attributed in no small measure to the strides that have been made in consolidating local school organization.

53. The gap produced by the proportional decline in school revenue from local tax and other sources has had to be filled, even more than has been true for the municipalities, by grants from the Province. Their contribution to school board revenues, always proportionally more than their contribution to municipal resources, hovers around 40 per cent of the total.

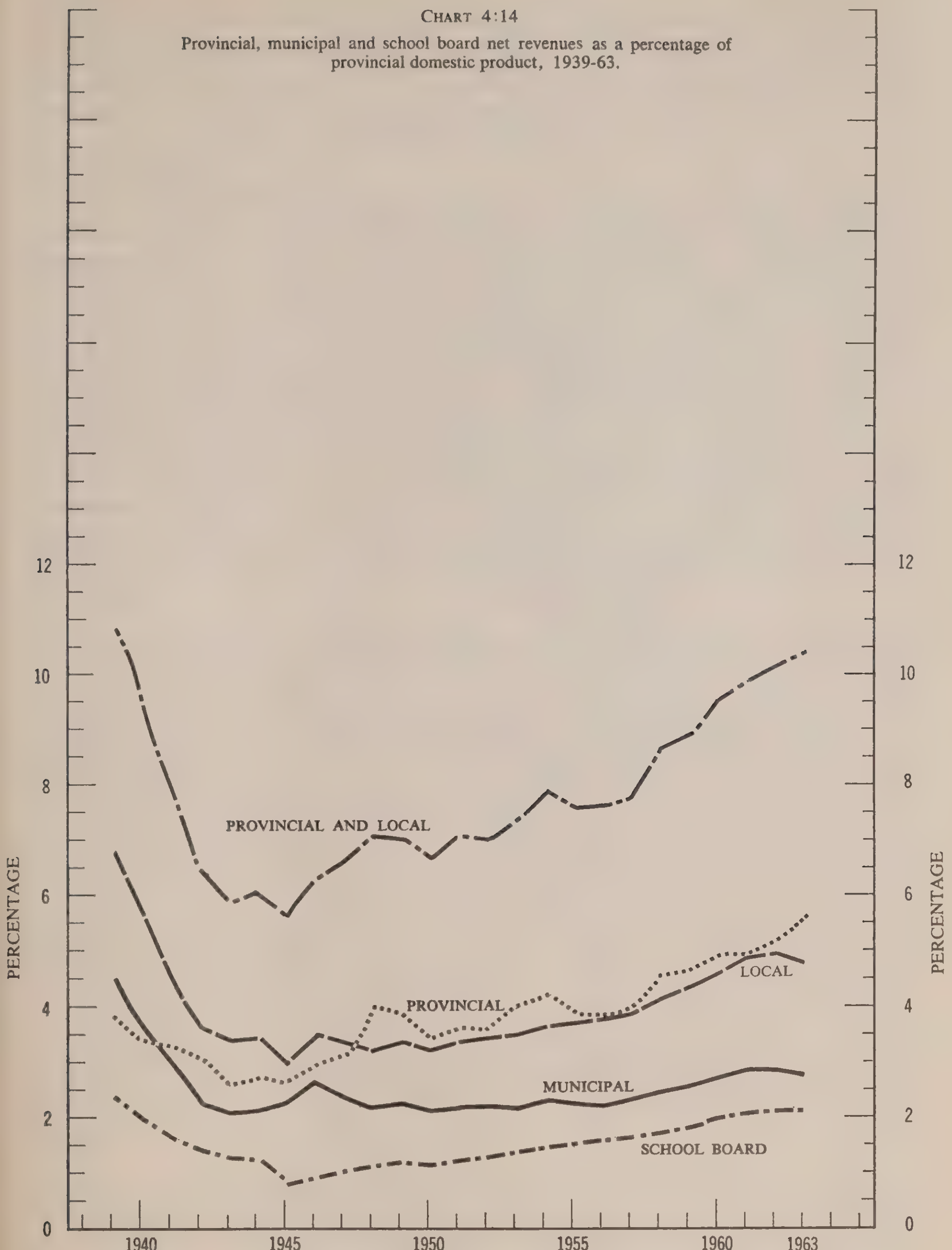
54. As a final note, it is interesting to observe that despite the necessity for continuously rising levels of government revenue to further the provision of a constantly expanding range of public services, the combined real net revenues of provincial and local authorities in Ontario in 1963 represented no greater proportion of the value of provincial domestic product than in 1939. (See Chart 4:14.) This should nevertheless not obscure the fact that during World War II the share of annual real production claimed by these governments declined sharply, to rise again strikingly after 1945. It appears quite clear that if the public continues to demand more and more services from government—and one can scarcely doubt that it will—the financial capacity of government must be correspondingly increased. The burden will obviously be least under conditions of sustained economic growth.

55. Throughout the foregoing analysis we have concentrated on the ordinary revenue and expenditure patterns of government. A portion of the costs of capital

[1]To the extent that fees are paid by other boards, an inevitable degree of double counting creeps into our figures, since tuition fees that are paid by school boards are financed through property taxation, and thus appear once as property tax revenues of fee-paying boards and again as tuition revenue of recipient boards.

CHART 4:14

Provincial, municipal and school board net revenues as a percentage of provincial domestic product, 1939-63.



Source: Table 4:26

PUBLIC DEBT IN ONTARIO
(selected post-war years)

	Province of Ontario			*All Ontario municipalities*			*All Ontario school boards*			*Total*		
	1945	Early *1950's*	Mid- *1960's*	*1945*	Early *1950's*	Mid- *1960's*	*1945*	Early *1950's*	Mid- *1960's*	*1945*	Early *1950's*	Mid- *1960's*
1. Gross debt/provincial domestic product	14.5%	10.7%	13.5%	2.9%	2.7%	5.4%	1.0%	2.0%	4.1%	18.4%	15.4%	23.0%
2. Gross debt/provincial personal income ..	17.0	13.0	16.0	3.1	3.2	6.4	1.1	2.3	4.8	21.2	18.5	27.2
3. Net interest costs/prov. domestic product	0.46	0.26	0.41	N.A.	0.08	0.25	N.A.	0.05	0.18	N.A.	0.39	0.84
4. Net interest costs/ordinary revenue	13.6	6.0	5.8	N.A.	4.0	8.2	N.A.	3.7	7.7	N.A.	13.7	21.7

Source: Ontario, Public Accounts; and Annual Reports of Municipal Statistics.

programs is regularly carried on the ordinary budget but over the years governments have had to borrow in order to meet growing needs for capital expenditures. It is therefore appropriate that in concluding this historical survey, we should turn to the main characteristics of the debt structure that has been built up in response to this residual but important segment of governmental operations.

DEBT PATTERNS

56. In the foregoing sections, we have tried to outline the main trends in provincial, municipal and school board general expenditures and revenues in Ontario since 1939, and we have measured these expenditures and revenues in a number of ways that appear to us useful. If, for example, the reader will compare Charts 4:2c and 4:10c, he will find that, except for the experience of the school board during World War II, and of the Province in occasional post-war years, the net real per-capita expenditures of the three levels of government with which we are concerned have at almost all times exceeded their net real per-capita revenues. Indeed, an examination of other appropriate charts in this chapter will indicate that, as we have measured it, an excess of expenditure over revenue has been persistent at all levels of government, regardless of the particular measurement applied. The result, particularly since the end of the war, has been a continuous growth in government debt, a summary of which is provided in Charts 4:15 and 4:16.

57. Among the ratios frequently employed to obtain a useful if rough indication of the burden of public debt are those of gross debt/provincial domestic product, gross debt/provincial personal income, net interest costs/provincial domestic product, and net interest costs/ordinary revenue. When applied to the post-war public debt of provincial and local governments in Ontario, all of these ratios indicate much the same pattern of debt behaviour. The Table suggests that the burden of Ontario government debt declined modestly from the end of World War II to the early 1950's, and then rose until, by the mid-sixties, the approximate conditions of 1945 were restored. It should be noted, however, that the proportion of provincial ordinary revenues required for servicing this debt has declined greatly, being in recent years less than half that of 1945. By contrast, the post-war burden of local (municipal and school board) debt has increased sharply. For the municipalities, the burden appears to have remained relatively stable until the early 1950's and then to have more than doubled by the mid-sixties. Even more striking has been the continuous rise in school board debt throughout the post-war years, with a resulting four-fold increase in debt burden during that period of two decades.

58. We now proceed to illustrate in greater detail the trend of Ontario's indebtedness in terms of its net direct capital debt, a measurement particularly appropriate in any discussion of the "burden" of public borrowing. This magnitude represents the total of the Province's bonded debt (less accumulated sinking fund), plus its unfunded liabilities, less the total of provincial revenue-producing and realizable assets—the latter being deemed to be self-sustaining. Net direct capital

debt therefore represents the aggregate of provincial borrowing that must be serviced by the taxpayers of the province, and when it is related to some appropriate variable such as provincial domestic product, the resulting ratio provides a measure of the burden of debt.

59. It is interesting to note that the persistent upward trend in Ontario's net capital debt since early in this century appears to display no marked cyclical pattern; debt has grown apace both in prosperity and depression. Thus, the periods of most rapid debt expansion have been:

(1) during the early 1920's, when the need for large-scale investment in social capital brought a doubling of the debt within five years;

(2) during the mid-1930's, when the catastrophic economic effects of the depression necessitated a great expansion in welfare payments; and

(3) since the early 1950's, when the requirements of an expanding economy, together with changing concepts of equity, resulted in rapidly rising public investment and transfer payments.

Beginning with any year in the early 1950's, the net capital debt has typically doubled within the decade. It can be seen from Chart 4:15a that by 1966 net capital debt had reached almost $1.5 billion.

60. In relation to provincial domestic product, net debt has varied rather widely in the course of the past several decades. The resulting ratio is obviously affected from year to year not only by the dollar increase in provincial debt but also by the uneven growth in provincial product, a variable influenced by economic conditions both inside and outside Ontario and indeed outside Canada. As a useful measure of debt burden, the capital debt/domestic product ratio stood at the relatively low level of 8 per cent during the prosperous years of the late 1920's, rose to an all-time peak of almost 30 per cent during the depths of the depression, when the value of Ontario's annual production fell by one-half within four years, and then declined continuously to its lowest level of 7 per cent during the peak of the post-war boom in 1956. A subsequent moderate rise has been in part reversed, thanks to the province's recent very rapid economic growth, so that in 1965 the ratio approximated 8 per cent. It is worthy of note that by historical standards, the present burden of provincial debt is near its lowest point.

61. By contrast, the post-war trends of both municipal and school board debt in Ontario present some disturbing features. Chart 4:16 reveals that municipal gross debt, after declining during the expenditure-rationed years of World War II, resumed its upward trend shortly thereafter and in 1964 stood at between four and five times its 1939 level, with accelerated increases in recent years. The Table indicates that as a proportion of provincial domestic product, municipal debt has risen steeply from an abnormally low post-war level of 2.9 per cent to approximately 5.4 per cent two decades later. The latter ratio is, admittedly, less than half the 1939 level of 10.8 per cent, a level that, of course, was unacceptably high by any standard.

CHART 4:15a

Provincial net capital debt and provincial domestic product Ontario, 1943-66.

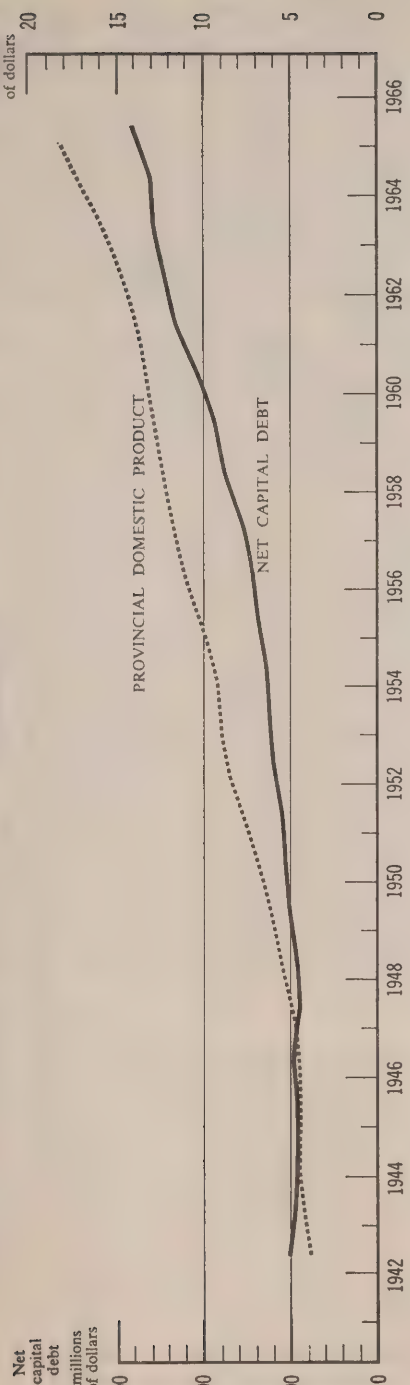
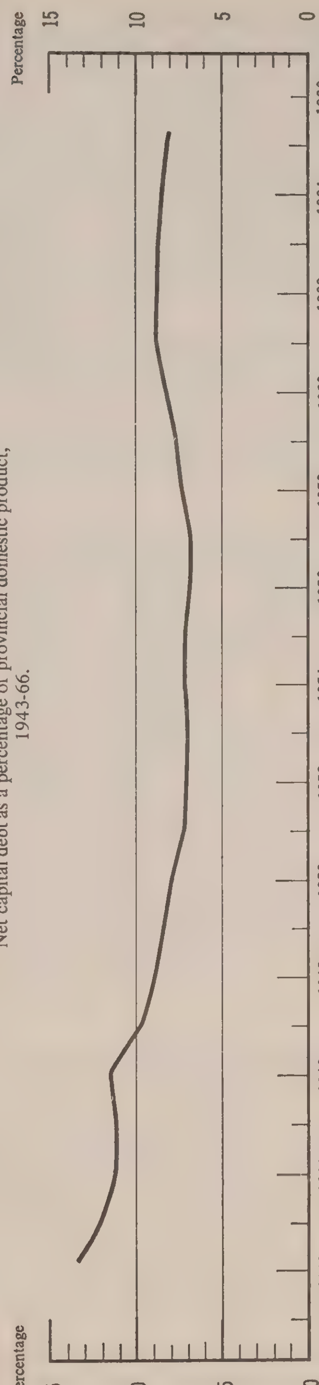


CHART 4:15b

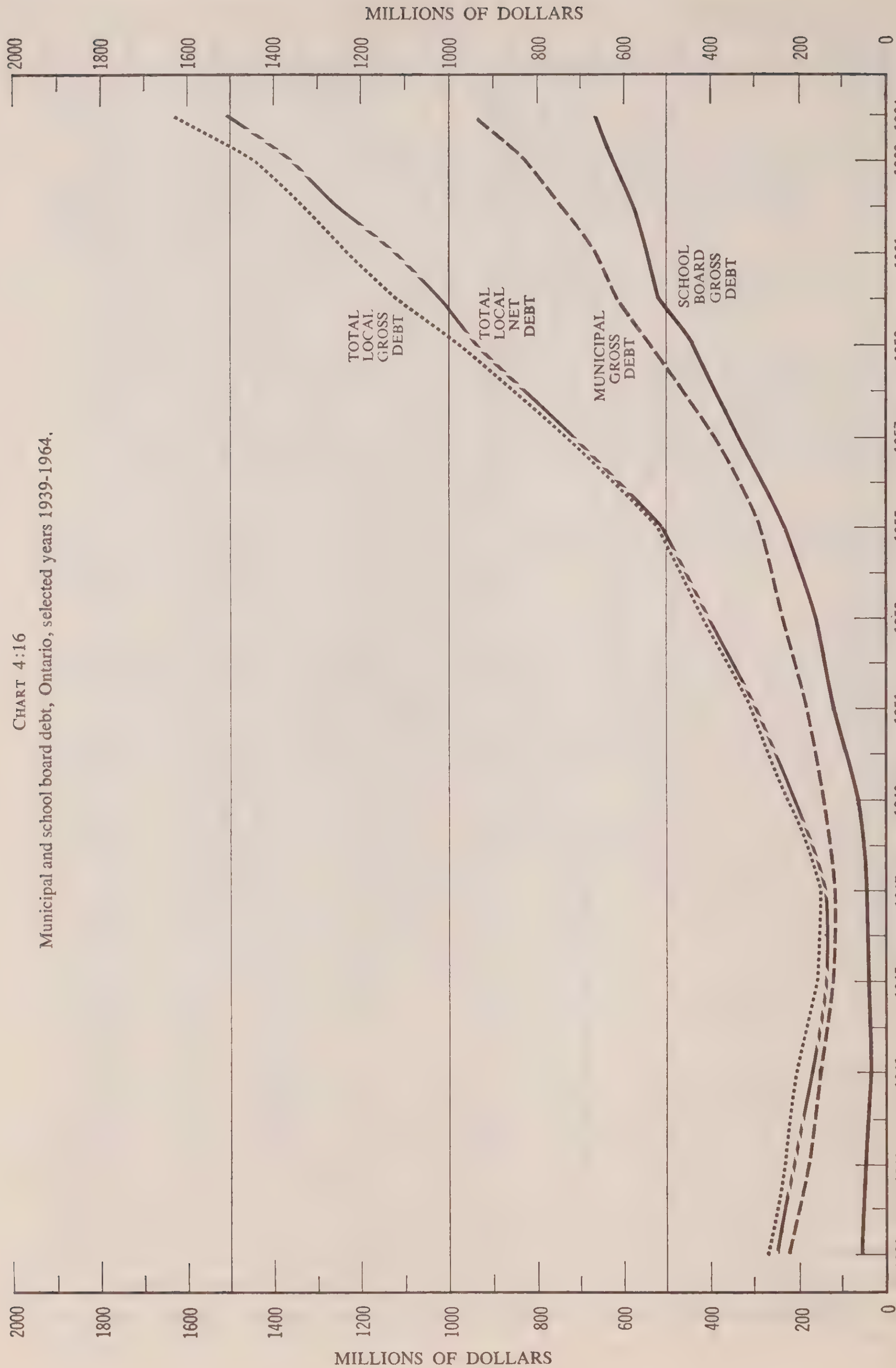
Net capital debt as a percentage of provincial domestic product, 1943-66.



Source: Table 4:27

CHART 4:16

Municipal and school board debt, Ontario, selected years 1939-1964.



Source: Table 4:28

62. As we emphasize in later parts of this Report, the financial flexibility of Ontario municipalities is severely limited, both by fiscal and by legal considerations. Restricted by overwhelming reliance upon the real property tax as the major component of their revenue system, and obliged by law to balance current expenditures with revenues, many municipalities have been driven to questionable spending decisions. In particular, there have been persistent pressures to restrain current spending below what might be established as optimum levels and, more immediately relevant to the present summary, there has been a strong tendency to broaden the category and increase the level of capital expenditures, outlays largely financed through the incurring of debt. In short, the municipal revenue system has been hard pressed in the face of the mushrooming demands of the post-war years.

63. Again referring to Chart 4:16, the trend of school board gross debt is seen to be even less satisfactory. It has increased more than eleven-fold since 1939, although as a percentage of provincial domestic product it has in recent years become stabilized at approximately 4 per cent—significantly higher than the 1939 level of 3 per cent and very much above the (once again) abnormal war-time low point of 1 per cent.

64. We have chosen to refer to municipal and school board debt in *gross* terms only because of the difficulty in distributing the accumulated sinking fund between the two categories. While the burden of their combined net debt is by definition less than that of their combined gross debt, the differences are seen from Chart 4:16 to be slight in many instances and the same basic underlying trends are obtained regardless of which of these measures is employed.

65. The measurement of the burden of municipal and school board debt in terms of the relationship of debt to provincial domestic product is much less satisfactory than is that of provincial debt, for the obvious reason that provincial domestic product cannot possibly reflect satisfactorily the widely differing economic circumstances of individual municipalities and school boards. While some such procedure is essential if any generalizations are to be offered concerning the burden of aggregate debt, the problem can be discussed realistically only in terms of the burden of a particular municipality or a particular school board.

CONCLUSION

66. This chapter will have accomplished its objective if it has oriented the reader with respect to the remarkable fiscal environment that we have been called upon to examine. We have stressed the changes that have taken place since the turn of the century, in no small part because change is indeed the keynote to what has happened in Ontario since our immediate predecessor, the Maclennan Commission, took stock of fiscal affairs. Needs have multiplied as income has risen, sophisticated forms of taxation have been devised to meet burgeoning expenditures, and debt has assumed a new order of magnitude. But not all is changed, and the *Toronto Daily Star* of September 14, 1900, constitutes a forceful reminder. In the realm of international affairs, a geographically remote conflict kept the appointment of the Maclennan Commission from the front page. Lord Roberts, announcing the flight of Kruger from his Boers, was quoted as saying: "The British Empire

is determined to complete the work which has already cost so many lives, and carry to a conclusion the war declared against her by the late sons of Transvaal and the Orange Free State, a war to which there can be only one ending." Meanwhile, on the municipal front, it was reported that the Toronto Public Library Board would discuss what action should be taken as a result of the recent pruning of $2,000 from their estimates by Board of Control. Apparently the Library Board had earlier threatened legal action to compel payment of the full amount of their estimates, which were within the statutory limits. Last but not least, in the world of sports, the Toronto Argonauts expected "plenty of first-class players" to turn out for the opening practice. The Hamilton Tigers were already in training.

Appendix to Chapter 4

TABLE 4:1

PROVINCE OF ONTARIO

GROSS MONEY EXPENDITURES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-63

	(thousands of dollars)				Indexes (1939 = 100)			
Year	(1) Provincial government *	(2) Municipalities **	(3) School boards **	(4) Total local expenditure (2 + 3)	(5) Provincial government	(6) Municipalities	(7) School boards	(8) Total local expenditure
1939	144,776	119,622	51,739	171,361	100.00	100.00	100.00	100.00
1940	135,937	105,078	50,114	155,192	93.89	87.84	96.86	90.56
1941	118,096	97,955	50,556	148,511	81.57	81.89	97.71	86.67
1942	128,911	92,296	51,545	143,841	89.04	77.16	99.63	83.94
1943	113,221	93,715	53,711	147,426	78.20	78.34	103.81	86.03
1944	122,772	86,398	57,313	143,711	84.80	72.23	110.77	83.86
1945	134,973	103,280	65,263	168,543	93.23	86.34	126.14	98.36
1946	148,531	120,656	71,060	191,716	102.59	100.86	137.34	111.88
1947	183,462	145,273	85,508	230,781	126.72	121.44	165.27	134.68
1948	222,749	179,417	106,299	285,716	153.86	149.99	205.45	166.73
1949	276,307	186,129	125,192	311,321	190.85	155.60	241.97	181.68
1950	317,346	206,425	142,121	348,546	219.20	172.56	274.69	203.40
1951	344,873	227,963	172,910	400,873	238.21	190.57	334.20	233.93
1952	410,828	253,793	206,411	460,204	283.76	212.16	398.95	268.56
1953	425,404	279,779	219,225	499,004	293.83	233.89	423.71	291.20
1954	437,446	388,930	248,138	637,068	302.15	325.13	479.60	371.77
1955	464,415	419,500	277,590	697,090	320.78	350.69	536.52	406.80
1956	543,628	459,349	310,800	770,149	375.49	384.00	600.71	449.43
1957	617,736	524,694	358,063	882,757	426.68	438.63	692.06	515.14
1958	707,893	574,165	391,484	965,649	488.95	479.98	756.65	563.52
1959	818,981	641,172	458,323	1,099,495	565.69	536.00	885.84	641.62
1960	982,759	711,349	527,853	1,239,202	678.81	594.66	1,020.22	723.15
1961	1,026,211	755,514	548,255	1,303,769	708.83	631.58	1,059.66	760.83
1962	1,164,509	845,050	672,221	1,517,271	804.35	706.43	1,299.25	885.42
1963	1,425,102	919,330	737,281	1,656,611	984.35	768.53	1,425.00	966.74
1964	1,462,986				1,010.52			

Source: Ontario, Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1939-1963. Canada' Dominion Bureau of Statistics, *Financial Statistics of Municipal Governments*, 1944-1962. Ontario, Department of Education, *Report of the Minister* 1939-1964. Canada, Department of Finance, *Federal-Provincial Conditional Grant and Shared-Cost Programs, 1962*. Ontario, *Public Accounts*, 1939-1964.

*Fiscal years ending March 31.

**Municipal and school board data include a small degree of double counting.

TABLE 4:2

PROVINCE OF ONTARIO

NET MONEY EXPENDITURES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-63

	(thousands of dollars)				Indexes (1939 = 100)			
Year	(1) Provincial government *	(2) Municipalities **	(3) School boards **	(4) Total local expenditure (2 + 3)	(5) Provincial government	(6) Municipalities	(7) School boards	(8) Total local expenditure
1939	127,762	105,116	44,723	149,839	100.00	100.00	100.00	100.00
1940	118,447	93,273	43,140	136,413	92.70	88.73	96.46	91.04
1941	104,575	88,711	42,902	131,613	81.85	84.39	95.93	87.84
1942	115,930	83,522	43,715	127,237	90.73	79.46	97.75	84.92
1943	100,202	85,914	45,434	131,348	78.42	81.73	101.59	87.66
1944	109,717	77,353	48,328	125,681	85.87	73.59	108.06	83.88
1945	120,712	97,290	38,656	135,946	94.48	92.55	86.43	90.73
1946	132,301	112,439	41,770	154,209	103.55	106.97	93.40	102.92
1947	163,891	129,147	55,304	184,451	128.27	122.86	123.66	123.10
1948	201,134	155,368	73,721	229,089	157.42	147.81	164.84	152.89
1949	253,131	157,520	87,599	245,119	198.12	149.85	195.87	163.59
1950	282,801	174,977	99,460	274,437	221.34	166.46	222.39	183.15
1951	305,384	191,828	125,555	317,383	239.02	182.49	280.74	211.82
1952	372,315	212,294	152,442	364,736	291.41	201.96	340.86	243.42
1953	404,593	236,184	161,344	397,528	316.67	224.69	360.76	265.30
1954	419,713	332,567	180,182	512,749	328.51	316.38	402.89	342.20
1955	441,268	352,367	203,940	556,307	345.38	335.22	456.01	371.27
1956	522,300	386,306	230,511	616,817	408.80	367.50	515.42	411.65
1957	592,290	433,650	259,880	693,530	463.58	412.54	581.09	462.85
1958	671,329	467,721	261,932	729,653	525.45	444.96	585.68	486.96
1959	750,138	518,697	308,167	826,864	587.13	493.45	689.06	551.83
1960	842,341	575,860	367,063	942,923	659.30	547.83	820.75	629.29
1961	871,578	611,458	363,130	974,588	682.18	581.70	811.96	650.42
1962	977,479	689,494	405,026	1,094,520	765.08	655.94	905.63	730.46
1963	1,106,542	753,793	432,696	1,186,489	866.10	717.11	967.50	791.84
1964	1,180,745				924.18			

Source: Canada, Dominion Bureau of Statistics, *Financial Statistics of Municipal Governments*, 1944-1962. Ontario, Department of Municipal Affairs, *Annual Reports of Municipal Statistics*, 1939-1963. Ontario, Department of Education, *Report of the Minister*, 1939-1964. Ontario, *Public Accounts*, 1939-1964.

*Fiscal years ending March 31.

**Municipal and school board data include a small degree of double counting.

TABLE 4:3

PROVINCE OF ONTARIO

NET MONEY EXPENDITURES AS A PERCENTAGE OF GROSS MONEY EXPENDITURES, PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-63

Year	(1) Provincial government*	(2) Municipalities	(3) School boards
1939	88.25%	87.87%	86.44%
1940	87.13	88.77	86.08
1941	88.55	90.56	84.86
1942	89.93	90.49	84.81
1943	88.50	91.68	84.59
1944	89.37	89.53	84.32
1945	89.43	94.20	59.23
1946	89.07	93.19	58.78
1947	89.33	88.90	64.68
1948	90.30	86.60	69.35
1949	91.61	84.63	69.97
1950	89.11	84.77	69.98
1951	88.55	84.15	72.61
1952	90.63	83.65	73.85
1953	95.11	84.42	73.60
1954	95.95	85.51	72.61
1955	95.02	84.00	73.47
1956	96.08	84.10	74.17
1957	95.88	82.65	72.58
1958	94.83	81.46	66.91
1959	91.59	80.90	67.24
1960	85.71	80.95	69.54
1961	84.93	80.93	66.23
1962	83.94	81.59	60.25
1963	77.65	81.99	58.69
1964	80.71		

Source: Tables 4:1 and 4:2

*Fiscal years ending March 31.

TABLE 4:4

PROVINCE OF ONTARIO

NET REAL EXPENDITURES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-63*

	(thousands of 1949 dollars)				Indexes (1939 = 100)			
Year	(1) Provincial government **	(2) Municipalities	(3) School boards	(4) Total local expenditure (2 + 3)	(5) Provincial government	(6) Municipalities	(7) School boards	(8) Total local expenditure
1939	213,737	176,634	75,233	251,867	100.00	100.00	100.00	100.00
1940	195,735	148,710	69,042	217,752	91.58	84.19	91.77	86.46
1941	164,688	135,299	65,776	201,075	77.05	76.60	87.43	79.83
1942	173,070	118,087	61,646	179,733	80.97	66.85	81.94	71.36
1943	139,999	117,372	62,101	179,473	65.50	66.45	82.54	71.26
1944	148,920	101,742	63,350	165,092	69.67	57.60	84.21	65.55
1945	157,570	124,303	49,078	173,381	73.72	70.37	65.23	68.84
1946	167,964	144,385	53,505	197,890	78.58	81.74	71.12	78.57
1947	205,953	154,039	65,966	220,005	96.36	87.21	87.68	87.35
1948	232,637	160,355	77,593	237,948	108.84	90.78	103.14	94.47
1949	263,222	157,520	87,599	245,119	123.15	89.18	116.44	97.32
1950	275,487	167,673	95,068	262,741	128.89	94.93	126.36	104.32
1951	285,298	165,123	107,911	273,034	133.48	93.48	143.44	108.40
1952	313,609	175,543	125,599	301,142	146.73	99.38	166.95	119.56
1953	330,740	189,305	128,943	318,248	154.74	107.17	171.39	126.36
1954	332,903	258,815	140,110	398,925	155.75	146.53	186.23	158.39
1955	341,089	268,026	154.220	422,246	159.58	151.74	204.99	167.65
1956	395,357	279,735	165,897	445,632	184.97	158.37	220.51	176.93
1957	425,786	299,876	178,477	478,353	199.21	169.77	237.23	189.92
1958	458,936	325,928	179,271	505,199	214.72	184.52	238.29	200.58
1959	504,174	350,849	204,219	555,068	235.88	198.63	271.45	220.38
1960	547,645	384,112	238,198	622,310	256.22	217.46	316.61	247.08
1961	547,074	410,623	230,596	641,219	255.95	232.47	306.51	254.59
1962	615,904	442,977	246,498	689,475	288.16	250.79	327.65	273.75
1963	665,700	462,421	253,250	715,671	306.78	261.80	336.62	284.15
1964	684,250				320.13			

Source: Canada, Dominion Bureau of Statistics, *National Accounts*, 1938-1964, and Table 4:2.

*The index used in this table and in subsequent tables for deflation is a composite index based on an estimated distribution between expenditure on current goods and services (index of current government expenditure), gross fixed capital formation (with its own price index in the National Accounts); and transfer payments to individuals (index for personal spending on consumer goods and services).

**Fiscal years ending March 31.

TABLE 4:5

PROVINCE OF ONTARIO

NET REAL PER-CAPITA EXPENDITURES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-63

Year	Provincial government*		Municipalities		School boards	
	1949 dollars	Index**	1949 dollars	Index***	1949 dollars	Index***
1939	$ 58.21	100.00	$47.63	100.00	$20.29	100.00
1940	52.79	90.69	39.69	83.33	18.43	90.83
1941	43.95	75.50	35.72	74.99	17.36	85.56
1942	45.69	78.49	30.40	63.83	15.87	78.22
1943	36.05	61.93	29.98	62.94	15.86	78.17
1944	38.04	65.35	25.67	53.89	15.99	78.81
1945	39.76	68.30	31.08	65.25	12.27	60.47
1946	41.99	72.14	35.28	74.07	13.07	64.42
1947	50.32	86.45	36.89	77.45	15.80	77.87
1948	55.71	95.71	38.21	80.22	18.15	89.45
1949	61.57	105.77	35.98	75.54	20.01	98.62
1950	62.93	108.11	37.50	78.73	21.26	104.78
1951	63.81	109.62	35.91	75.39	23.47	115.67
1952	68.21	117.18	36.66	76.97	26.23	129.28
1953	69.08	118.67	38.31	80.43	26.10	128.63
1954	67.38	115.75	50.60	106.24	27.39	134.99
1955	66.68	114.55	50.90	106.87	29.29	144.36
1956	75.08	128.98	51.75	108.65	30.69	151.26
1957	78.78	135.34	53.20	111.69	31.67	156.09
1958	81.43	139.89	55.99	117.55	30.80	151.80
1959	86.61	148.79	58.78	123.41	34.21	168.61
1960	91.75	157.62	62.56	131.35	38.98	192.11
1961	89.52	153.79	65.44	137.39	36.98	182.26
1962	98.77	169.68	69.54	146.00	38.87	191.57
1963	104.97	180.33	71.53	150.18	39.28	193.59
1964	106.12	182.31				

Source: Canada, Dominion Bureau of Statistics, *National Accounts*, 1938–1964, and Table 4:4.

*Fiscal years ending March 31.

1938–39 = 100. * 1939 = 100.

Provincial figures based on population at June 1 of years preceding indicated years.

TABLE 4:6a

PROVINCE OF ONTARIO

GOVERNMENT EXPENDITURE BY LEVEL OF ULTIMATE SPENDING RESPONSIBILITY, 1939-63
MONEY EXPENDITURES

	(thousands of dollars)			Indexes (1939=100)		
Year	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	119,958	119,622	51,739	100.00	100.00	100.00
1940	114,425	105,078	50,114	95.39	87.84	96.86
1941	99,317	97,955	50,556	82.79	81.89	97.71
1942	112,019	92,296	51,545	93.38	77.16	99.63
1943	96,917	93,715	53,711	80.79	78.34	103.81
1944	106,694	86,398	57,313	88.94	72.23	110.77
1945	116,943	103,280	65,263	97.49	86.34	126.14
1946	115,934	120,656	71,060	96.65	100.86	137.34
1947	144,912	145,273	85,508	120.80	121.44	165.27
1948	170,574	179,417	106,299	142.19	149.99	205.45
1949	216,355	186,129	125,192	180.36	155.60	241.97
1950	246,199	206,425	142,121	205.24	172.56	274.69
1951	266,503	227,963	172,910	222.16	190.57	334.20
1952	324,180	253,793	206,411	270.24	212.16	398.95
1953	328,115	279,779	219,225	273.52	233.89	423.71
1954	335,427	388,930	248,138	279.62	325.13	479.60
1955	337,078	419,500	277,590	281.00	350.69	536.52
1956	408,477	459,349	310,800	340.52	384.00	600.71
1957	462,297	524,694	358,063	385.38	438.63	692.06
1958	513,916	574,165	391,484	428.41	479.98	756.65
1959	584,340	641,172	458,323	487.12	536.00	885.84
1960	709,813	711,349	527,853	591.72	594.66	1,020.22
1961	722,731	755,514	548,255	602.49	631.58	1,059.66
1962	819,702	845,050	672,221	683.32	706.43	1,299.25
1963	889,766	919,330	737,281	741.73	768.53	1,425.00

Source: Table 4:1; Canada, Dominion Bureau of Statistics, *Historical Review, Financial Statistics of Governments in Canada, 1952-62*, and data supplied by the Ontario Department of Economics and Development.

*Fiscal years ending March 31.

TABLE 4:6b

PROVINCE OF ONTARIO

GOVERNMENT EXPENDITURE BY LEVEL OF ULTIMATE SPENDING RESPONSIBILITY, 1939-63
REAL EXPENDITURES

	(thousands of 1949 dollars)			Indexes (1939=100)		
Year	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	200,666	201,012	87,029	100.00	100.00	100.00
1940	189,038	167,535	80,208	94.21	83.35	92.16
1941	156,405	149,390	77,516	77.94	74.32	89.07
1942	167,242	130,491	72,691	83.34	64.92	83.53
1943	135,416	128,026	73,416	67.48	63.69	84.36
1944	144,807	113,637	75,125	72.16	56.53	86.32
1945	152,647	131,953	82,863	76.07	65.64	95.21
1946	147,180	154,945	91,021	73.35	77.08	104.59
1947	182,096	173,274	101,990	90.75	86.20	117.19
1948	197,287	185,176	111,882	98.32	92.12	128.56
1949	224,971	186,129	125,192	112.11	92.60	143.85
1950	239,843	197,801	135,832	119.52	98.40	156.08
1951	248,975	196,232	148,612	124.07	97.62	170.76
1952	273,063	209,850	170,068	136.08	104.40	195.42
1953	268,227	224,254	175,198	133.67	111.56	201.31
1954	266,043	302,669	192,953	132.58	150.57	221.71
1955	260,553	319,084	209,914	129.84	158.74	241.20
1956	309,195	332,621	223,678	154.08	165.47	257.02
1957	332,325	362,834	245,906	165.61	180.50	282.56
1958	351,323	400,115	267,938	175.08	199.05	307.87
1959	392,728	433,693	303,726	195.71	215.75	348.99
1960	461,487	474,486	342,539	229.98	236.05	393.59
1961	453,635	507,363	348,164	226.06	252.40	400.06
1962	516,478	542,917	409,118	257.38	270.09	470.09
1963	527,237	563,972	431,512	262.74	280.57	495.83

Source: Table 4:6a.

*Fiscal years ending March 31.

TABLE 4:6c

PROVINCE OF ONTARIO

GOVERNMENT EXPENDITURE BY LEVEL OF ULTIMATE SPENDING RESPONSIBILITY, 1939-63
REAL PER-CAPITA EXPENDITURES

	(1949 dollars)			Indexes (1939=100)		
Year	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	54.65	54.21	23.47	100.00	100.00	100.00
1940	50.98	44.71	21.41	93.28	82.48	91.22
1941	41.74	39.44	20.46	76.38	72.75	87.18
1942	44.15	33.60	18.72	80.79	61.98	79.76
1943	34.87	32.70	18.75	63.81	60.32	79.89
1944	36.99	28.67	18.96	67.69	52.89	80.78
1945	38.52	32.99	20.72	70.48	60.86	88.28
1946	36.80	37.86	22.24	67.34	69.84	94.76
1947	44.49	41.49	24.42	81.41	76.54	104.05
1948	47.24	43.32	26.17	86.44	79.91	111.50
1949	52.62	42.51	28.60	96.29	78.42	121.86
1950	54.78	44.24	30.38	100.24	81.61	129.44
1951	55.69	42.68	32.32	101.90	78.73	137.71
1952	59.39	43.83	35.52	108.67	80.85	151.34
1953	56.02	45.39	35.46	102.51	83.73	151.09
1954	53.84	59.17	37.72	98.52	109.15	160.72
1955	50.94	60.59	39.86	93.21	111.77	169.83
1956	58.72	61.54	41.38	107.45	113.52	176.31
1957	61.48	64.38	43.63	112.50	118.76	185.90
1958	62.34	68.74	46.03	114.07	126.80	196.12
1959	67.47	72.66	50.88	123.46	134.03	216.79
1960	77.31	77.64	56.05	141.46	143.22	238.82
1961	74.23	81.36	55.83	135.83	150.08	237.88
1962	82.82	85.61	64.51	151.55	157.92	274.86
1963	83.13	87.46	66.92	152.11	161.34	285.13

Source: Tables 4:6a and 4:6b.
*Fiscal years ending March 31.

TABLE 4:7

PROVINCE OF ONTARIO

PROVINCIAL AND LOCAL NET REAL EXPENDITURE
ON GOODS AND SERVICES; NATIONAL ACCOUNTS BASIS, 1939-63

	(thousands of 1949 dollars)					
	(1)	(2)	(3)	(4)	(5)	(6)
Year	Provincial expenditure*	Local expenditure	Estimated real provincial domestic product	(1) as a percentage of (3)	(2) as a percentage of (3)	(1)+(2)as a percentage of (3)
1939	142,874	180,242	3,538,000	4.04	5.09	9.13
1940	119,383	165,221	4,076,000	2.93	4.05	6.98
1941	125,885	164,851	4,745,000	2.65	3.47	6.12
1942	104,418	149,995	5,377,000	1.94	2.79	4.73
1943	100,624	153,023	5,712,000	1.76	2.68	4.44
1944	108,678	143,802	5,750,000	1.89	2.50	4.39
1945	118,319	128,948	5,691,000	2.08	2.27	4.35
1946	155,269	143,692	5,341,000	2.91	2.69	5.60
1947	190,972	177,095	5,388,000	3.54	3.29	6.83
1948	209,740	198,979	5,473,000	3.83	3.64	7.47
1949	225,149	213,567	5,776,000	3.90	3.70	7.60
1950	234,836	229,390	6,283,000	3.74	3.65	7.39
1951	249,008	238,008	6,454,000	3.86	3.69	7.55
1952	273,275	262,363	6,912,000	3.95	3.80	7.75
1953	280,018	274,602	7,258,000	3.86	3.78	7.64
1954	289,971	347,396	7,240,000	4.01	4.80	8.80
1955	327,320	365,143	7,915,000	4.14	4.61	8.75
1956	356,231	380,120	8,376,000	4.25	4.54	8.79
1957	397,515	405,218	8,757,000	4.54	4.63	9.17
1958	453,663	413,666	8,845,000	5.13	4.68	9.81
1959	483,831	446,922	9,147,000	5.29	4.89	10.18
1960	483,456	459,076	9,256,000	5.22	4.96	10.18
1961	522,544	510,058	9,507,000	5.50	5.37	10.86
1962	561,118	540,123	9,905,000	5.66	5.45	11.11
1963	579,980	549,739	10,390,000	5.58	5.29	10.87

Source: Canada, Dominion Bureau of Statistics, *National Accounts, 1926–1956*, Table 49; 1955–1964, Table 49. Canada, Dominion Bureau of Statistics, unpublished tables provided to The Ontario Committee on Taxation.
*Fiscal years ending March 31.

TABLE 4:8

PROVINCE OF ONTARIO

FUNCTIONAL CLASSIFICATION OF NET EXPENDITURES OF PROVINCIAL GOVERNMENT, 1945-64*

(thousands of dollars)

Fiscal year	Education	Health	Welfare	Highways	Natural resources	Law enforcement and reform	Municipal affairs	Public debt	Public works	Power bonus	Miscellaneous
1945..	25,748	11,632	12,826	18,290	9,706	4,538	6,417	26,109	1,219	1,310	2,917
1946..	32,258	12,631	12,908	22,619	10,427	6,177	3,361	25,447	1,390	1,680	3,403
1947..	34,134	15,551	13,490	45,378	12,371	6,200	3,453	24,812	2,554	1,660	4,288
1948..	41,431	20,119	13,700	62,026	13,702	8,217	3,695	22,872	5,431	4,565	5,376
1949..	49,418	28,650	17,718	67,790	17,373	11,311	3,952	34,422	7,703	8,028	6,766
1950..	53,935	32,265	21,650	72,042	20,748	11,204	4,009	38,975	8,914	10,622	8,437
1951..	60,894	33,768	23,938	82,280	18,343	12,315	4,480	41,457	11,753	7,297	8,859
1952..	71,014	44,509	24,637	102,180	19,215	17,040	5,214	54,726	12,152	10,224	11,404
1953..	79,676	50,530	21,909	120,213	20,634	16,084	7,622	52,903	12,693	8,826	13,503
1954..	86,094	52,245	23,700	113,967	19,902	17,320	9,353	52,456	22,211	9,412	13,053
1955..	96,209	57,019	26,054	110,169	19,025	19,031	18,333	47,014	26,652	7,297	14,465
1956..	105,038	59,193	27,000	156,353	24,765	21,976	15,869	58,094	30,366	7,976	15,670
1957..	112,891	62,303	29,303	197,915	24,002	22,412	16,875	67,005	35,485	6,144	17,955
1958..	147,933	65,965	36,143	214,197	27,822	27,019	25,788	46,959	50,368	7,359	21,776
1959..	183,661	77,323	41,920	229,459	29,719	30,113	28,079	50,285	49,505	1,454	28,620
1960..	211,908	84,060	44,624	250,930	33,888	34,562	32,414	68,210	49,813	1,324	30,608
1961..	235,069	88,960	51,019	239,641	33,356	33,854	36,856	78,233	42,019	511	32,060
1962..	270,623	130,316	54,447	245,000	37,178	36,603	39,530	86,116	39,621	544	37,501
1963..	357,695	144,303	56,676	252,143	38,213	39,623	41,771	96,407	37,381	922	41,408
1964..	391,038	122,026	60,690	281,382	42,048	47,878	44,955	102,239	40,651	824	47,014

Source: Ontario, *Public Accounts*, 1945-1964.

*Net ordinary and net capital expenditures.

TABLE 4:9

PROVINCE OF ONTARIO

PERCENTAGE DISTRIBUTION OF FUNCTIONAL CLASSIFICATION OF NET EXPENDITURES OF PROVINCIAL GOVERNMENT, 1945-64*

(percentages)

Fiscal year	Education	Health	Welfare	Highways	Natural resources	Law enforcement and reform	Municipal affairs	Public debt	Public works	Power bonus	Miscellaneous
1945.....	21.33	9.63	10.63	15.15	8.04	3.76	5.32	21.63	1.01	1.08	2.42
1946.....	24.38	9.55	9.76	17.10	7.88	4.67	2.54	19.23	1.05	1.27	2.57
1947.....	20.83	9.49	8.23	27.69	7.55	3.78	2.11	15.14	1.56	1.01	2.61
1948.....	20.60	10.00	6.81	30.84	6.81	4.09	1.84	11.37	2.70	2.27	2.67
1949.....	19.52	11.32	7.00	26.78	6.86	4.47	1.56	13.60	3.04	3.18	2.67
1950.....	19.07	11.41	7.66	25.47	7.34	3.96	1.42	13.78	3.15	3.76	2.98
1951.....	19.94	11.06	7.84	26.94	6.00	4.03	1.47	13.58	3.85	2.39	2.90
1952.....	19.07	11.96	6.62	27.44	5.16	4.58	1.40	14.70	3.26	2.75	3.06
1953.....	19.69	12.49	5.42	29.71	5.09	3.98	1.88	13.08	3.14	2.18	3.34
1954.....	20.51	12.45	5.65	27.15	4.74	4.13	2.23	12.50	5.29	2.24	3.11
1955.....	21.80	12.92	5.91	24.97	4.31	4.31	4.16	10.65	6.04	1.65	3.28
1956.....	20.11	11.33	5.17	29.94	4.74	4.21	3.04	11.12	5.81	1.53	3.00
1957.....	19.06	10.52	4.95	33.42	4.05	3.78	2.85	11.31	5.99	1.04	3.03
1958.....	22.04	9.83	5.38	31.91	4.15	4.02	3.84	6.99	7.50	1.10	3.24
1959.....	24.48	10.31	5.59	30.59	3.96	4.02	3.74	6.70	6.60	0.19	3.82
1960.....	25.16	9.98	5.30	29.79	4.02	4.10	3.85	8.10	5.91	0.16	3.63
1961.....	26.97	10.21	5.85	27.50	3.83	3.88	4.23	8.98	4.82	0.06	3.67
1962.....	27.69	13.33	5.57	25.07	3.80	3.74	4.04	8.81	4.05	0.06	3.84
1963.....	32.33	13.04	5.12	22.79	3.45	3.58	3.78	8.71	3.38	0.08	3.74
1964.....	33.12	10.34	5.14	23.83	3.56	4.05	3.81	8.66	3.44	0.07	3.98

Source: Table 4:8.

*Net ordinary and net capital expenditures.

TABLE 4:10

PROVINCE OF ONTARIO

FUNCTIONAL CLASSIFICATION OF NET GENERAL EXPENDITURES OF LOCAL GOVERNMENTS, 1951-63

(thousands of dollars)

Year	Education	Highways and roads	Sanitation and waste removal	Protection to persons and property	General government	Health	Social welfare	Debt charges	Deficits of municipal enterprises	Miscellaneous	Total
1945..	34,517	20,189	8,010	18,293	14,438	11,005	5,283	5,965	804	7,187	125,691
1946–1950 not available											
1951..	111,443	36,184	21,716	47,304	17,883	13,917	12,275	9,977	821	22,185	293,705
1952..	136,353	43,786	21,877	43,180	22,948	18,548	13,486	12,422	1,558	25,041	339,199
1953..	144,261	50,713	32,107	46,358	26,838	19,936	14,348	15,754	1,677	27,076	379,068
1954..	160,999	71,031	92,046	56,528	31,293	25,917	17,262	20,443	1,756	27,720	504,995
1955..	174,362	104,156	57,315	70,684	39,050	22,429	18,848	22,172	1,819	29,610	540,445
1956..	198,699	100,190	73,356	72,190	46,239	27,080	20,367	26,791	4,205	32,552	601,669
1957..	229,190	152,635	64,040	77,510	46,068	30,049	18,960	36,307	2,112	41,903	698,774
1958..	225,630	158,959	68,851	85,678	50,772	27,679	21,715	38,651	2,562	46,766	727,263
1959..	263,830	180,558	77,192	95,430	54,560	24,989	22,101	45,759	3,011	52,756	820,186
1960..	306,307	188,433	84,993	102,289	60,199	31,209	25,363	56,557	10,953	63,282	929,585
1961..	318,378	167,861	109,413	113,457	58,066	29,693	24,406	65,479	10,888	58,239	955,880
1962..	330,527	204,499	101,742	122,211	65,094	38,369	24,944	70,889	12,158	72,264	1,042,697
1963..	360,659	209,143	111,152	127,364	77,646	22,100	25,008	79,146	15,134	75,426	1,102,778

Source: Federal-Provincial Conference 1955, *Comparative Statistics of Public Finance*, Vol. I. Canada, Dominion Bureau of Statistics, *Historical Review, Financial Statistics of Governments in Canada, 1952-62; Municipal Government Finance*, 1963.

TABLE 4:11

PROVINCE OF ONTARIO

PERCENTAGE DISTRIBUTION OF FUNCTIONAL CLASSIFICATION OF NET GENERAL EXPENDITURES OF LOCAL GOVERNMENTS, 1951-63

(percentages)

Year	Education	Highways and roads	Sanitation and waste removal	Protection to persons and property	General government	Health	Social welfare	Debt charges	Deficits of municipal enterprises	Miscellaneous	Total
1945.......	27.5	16.1	6.4	14.6	11.5	8.8	4.2	4.7	.6	5.6	100.0
1946–1950 not available											
1951.......	37.9	12.3	7.4	16.1	6.1	4.7	4.2	3.4	.3	7.6	100.0
1952.......	40.2	12.9	6.4	12.7	6.8	5.5	4.0	3.7	.5	7.3	100.0
1953.......	38.1	13.4	8.5	12.2	7.1	5.3	3.8	4.2	.4	7.0	100.0
1954.......	31.9	14.1	18.2	11.2	6.2	5.1	3.4	4.0	.3	5.6	100.0
1955.......	32.3	19.3	10.6	13.1	7.2	4.2	3.5	4.1	.3	5.4	100.0
1956.......	33.0	16.7	12.2	12.0	7.7	4.5	3.4	4.5	.7	5.3	100.0
1957.......	32.8	21.8	9.2	11.1	6.6	4.3	2.7	5.2	.3	6.0	100.0
1958.......	31.0	21.9	9.5	11.8	7.0	3.8	3.0	5.3	.4	6.3	100.0
1959.......	32.2	22.0	9.4	11.6	6.7	3.0	2.7	5.6	.4	6.4	100.0
1960.......	33.0	20.3	9.1	11.0	6.5	3.4	2.7	6.1	1.2	6.7	100.0
1961.......	33.3	17.6	11.4	11.9	6.1	3.1	2.6	6.8	1.1	6.1	100.0
1962.......	31.7	19.6	9.8	11.7	6.2	3.7	2.4	6.8	1.2	6.9	100.0
1963.......	32.7	19.0	10.1	11.5	7.0	2.0	2.3	7.2	1.4	6.8	100.0

Source: Table 4:10.

TABLE 4:12

PROVINCE OF ONTARIO

FUNCTIONAL CLASSIFICATION OF GROSS GENERAL EXPENDITURES OF LOCAL GOVERNMENTS, 1952-63

(thousands of dollars)

Year	Education*	Highways and roads	Sanitation and waste removal	Protection to persons and property	General government	Health	Social welfare	Debt charges**	Deficit of municipal enterprises	Miscellaneous	Total
1952	192,134	69,332	21,877	47,524	24,195	18,821	18,154	17,269	1,559	25,056	435,921
1953	202,645	76,514	32,111	51,336	28,712	20,226	19,078	21,446	1,677	27,091	480,836
1954	237,334	101,947	92,046	56,792	31,293	26,949	23,439	27,725	1,756	27,738	627,019
1955	272,973	139,598	57,315	70,938	39,050	24,055	26,326	30,701	1,819	29,670	692,445
1956	306,496	140,186	73,356	72,190	46,239	27,405	27,513	36,166	4,205	32,982	766,738
1957	361,060	194,171	64,040	77,510	46,068	30,328	28,535	48,007	2,112	41,903	893,734
1958	384,330	206,191	68,851	85,678	50,772	28,022	38,360	51,926	2,562	47,718	964,410
1959	448,146	236,991	77,242	95,430	54,560	25,385	43,525	60,941	3,011	52,802	1,098,053
1960	508,789	250,375	84,993	102,289	60,199	31,606	49,765	56,557	10,953	63,331	1,218,857
1961	517,409	242,013	110,056	113.457	58,066	30,694	56,554	65,479	10,888	58,861	1,263,477
1962	691,479	285,212	103,866	122,211	65,094	39,177	58,909	70,889	12,158	72,921	1,521,916
1963	739,641	299,208	113,352	127,749	77,699	22,885	61,234	79,146	15,134	76,283	1,612,331

Source: Canada, Dominion Bureau of Statistics, *Historical Review, Financial Statistics of Government in Canada, 1952-62*; *Municipal Government Finance, 1963*; Ontario Department of Education, *Report of the Minister of Education*, 1952-1963; Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1952-1963; and records of the Municipality of Metropolitan Toronto Treasury Department, and the Metropolitan Separate School Board, Toronto.

*Excluding debt charges of school boards.

**Including debt interest charges of municipalities and school boards.

TABLE 4:13

PROVINCE OF ONTARIO

PERCENTAGE DISTRIBUTION OF FUNCTIONAL CLASSIFICATION OF GROSS GENERAL EXPENDITURES OF LOCAL GOVERNMENTS, 1952-63

Year	Education*	Highways and roads	Sanitation and waste removal	Protection to persons and property	General government	Health	Social welfare	Debt charges**	Deficit of municipal enterprises	Miscellaneous	Total
1952	44.1	15.9	5.0	10.9	5.6	4.3	4.2	4.0	0.4	5.6	100.0
1953	42.1	15.9	6.7	10.7	6.0	4.2	4.0	4.5	0.3	5.6	100.0
1954	37.9	16.3	14.7	9.1	5.0	4.3	3.7	4.4	0.3	4.3	100.0
1955	39.4	20.2	8.3	10.2	5.6	3.5	3.8	4.4	0.3	4.3	100.0
1956	40.0	18.3	9.6	9.4	6.0	3.6	3.6	4.7	0.5	4.3	100.0
1957	40.4	21.7	7.2	8.7	5.2	3.4	3.2	5.4	0.2	4.6	100.0
1958	39.9	21.4	7.1	8.8	5.3	2.9	4.0	5.4	0.3	4.9	100.0
1959	40.8	21.6	7.0	8.7	5.0	2.3	4.0	5.5	0.3	4.8	100.0
1960	41.7	20.6	7.0	8.4	4.9	2.6	4.1	4.6	0.9	5.2	100.0
1961	41.0	19.2	8.7	9.0	4.6	2.4	4.5	5.2	0.8	4.6	100.0
1962	45.4	18.7	6.8	8.0	4.3	2.6	3.9	4.7	0.8	4.8	100.0
1963	45.9	18.6	7.0	7.9	4.8	1.4	3.8	4.9	0.9	4.8	100.0

Source: Table 4:12.

*Excluding debt charges of school boards.

**Including debt interest charges of municipalities and school boards.

TABLE 4:14

PROVINCE OF ONTARIO

COMBINED PROVINCIAL AND LOCAL NET GENERAL EXPENDITURE AND PROVINCIAL DOMESTIC PRODUCT, ONTARIO AND REST OF CANADA, 1945-62

Year	(1) Provincial and local net general expenditure Ontario (thousands of dollars)	(2) Rest of Canada	(3) Provincial domestic product Ontario (millions of dollars)	(4) Rest of Canada	(1) as a percentage of (3)	(2) as a percentage of (4)
1945	252,734	466,832	4,331	6,473	5.8	7.2
1946	326,635	575,500	4,150	6,641	7.9	8.7
1947	369,354	725,000	4,591	7,266	8.0	9.9
1948	455,023	871,524	5,260	8,439	8.7	10.3
1949	474,615	947,231	5,776	9,109	8.2	10.4
1950	518,454	1,036,527	6,478	9,980	8.0	10.4
1951	627,722	1,210,749	7,364	11,762	8.5	10.3
1952	707,992	1,384,442	8,281	13,063	8.5	10.6
1953	759,739	1,480,307	8,731	13,475	8.7	11.0
1954	907,975	1,665,573	8,920	13,293	10.2	12.5
1955	1,014,089	1,825,252	9,799	14,527	10.3	12.6
1956	1,137,633	2,041,256	10,784	16,405	10.5	12.4
1957	1,330,627	2,298,335	11,717	16,581	11.4	13.9
1958	1,443,863	2,444,596	12,047	16,998	12.0	14.4
1959	1,689,090	2,771,230	12,844	18,054	13.2	15.3
1960	1,834,405	3,145,854	13,150	19,186	13.9	16.4
1961	1,959,369	3,347,435	13,670	19,661	14.3	17.0
1962	2,180,839	3,662,402	14,605	21,245	14.9	17.2

Source: Canada, Dominion Bureau of Statistics, *Historical Review, Financial Statistics of Governments in Canada, 1952-62; National Accounts, 1926-56*, 1963; and data supplied by the Ontario Department of Economics and Development.

TABLE 4:15

PROVINCE OF ONTARIO

COMBINED PROVINCIAL AND LOCAL NET GENERAL EXPENDITURE AND PERSONAL INCOME, BY PROVINCE, 1952 AND 1962

	(thousands of dollars)					
	1952			1962		
Province	Net general expenditure	Personal income	(1) as a percentage of (2)	Net general expenditure	Personal income	(3) as a percentage of (4)
	(1)	(2)	(3)	(4)	(5)	(6)
British Columbia	237,827	1,728,000	13.8	581,034	3,112,000	18.7
Alberta	188,247	1,328,000	14.2	491,053	2,307,000	21.3
Saskatchewan	133,873	1,209,000	11.1	309,042	1,571,000	19.7
Manitoba	90,954	934,000	9.7	276,676	1,563,000	17.7
Ontario	707,992	6,749,000	10.5	2,180,839	12,227,000	17.8
Quebec	553,536	4,152,000	13.3	1,541,898	7,749,000	19.9
New Brunswick	66,887	406,000	16.5	144,280	672,000	21.5
Nova Scotia	72,301	553,000	13.1	172,201	925,000	18.6
Prince Edward Island	8,880	71,000	12.5	30,280	109,000	27.8
Newfoundland	30,941	219,000	14.1	106,303	460,000	23.1
All Provinces	2,091,438	17,349,000	12.1	5,833,606	30,695,000	19.0

Source: Canada, Dominion Bureau of Statistics, *Historical Review, Financial Statistics of Governments in Canada, 1952-62; National Accounts, 1926-1956*, 1963.

TABLE 4:16

PROVINCE OF ONTARIO

COMBINED PROVINCIAL AND LOCAL NET GENERAL EXPENDITURE
PER CAPITA, BY PROVINCE, 1952 AND 1962

Province	1952 (dollars)	1962
British Columbia	197.37	350.23
Alberta	193.47	358.43
Saskatchewan	158.81	332.30
Manitoba	113.98	295.91
Ontario	147.87	343.87
Quebec	132.62	287.35
New Brunswick	127.16	237.69
Nova Scotia	110.72	230.83
Prince Edward Island	88.80	285.66
Newfoundland	82.73	226.18
All Provinces	144.90	314.80
All Provinces, excluding Ontario	143.42	299.68

Source: Canada, Dominion Bureau of Statistics, *Historical Review, Financial Statistics of Governments in Canada, 1952-62; National Accounts, 1926-1956*, 1963.

TABLE 4:17

PROVINCE OF ONTARIO

PRINCIPAL REVENUES OF PROVINCIAL GOVERNMENT, 1939-67

(thousands of dollars)

Fiscal year	Personal income and corporate taxes*	Expenditure-based revenues: Gasoline tax	L.C.B.O.	Motor vehicle permits and licences	Retail sales tax	Forestry revenues	Mining revenues	Death taxes	Miscellaneous	Total net ordinary revenue
1939	16,215	18,504	11,000	7,681		4,378	2,958	15,315	10,792	86,843
1940	16,822	25,105	9,950	8,467		3,332	2,101	11,500	10,896	88,173
1941	28,712	26,608	10,800	9,067		4.791	2,238	11,172	10,414	103,802
1942	29,626	27,641	13,750	9,879		4,820	2,621	11,676	11,483	111,496
1943	28,884	20,996	17,275	7,117		5,044	2,478	11,636	14,784	108,214
1944	29,694	19,168	20,000	9,175		4,661	2,055	13,321	20,023	118,097
1945	28,771	18,913	18,807	9,272		5,326	1,643	12,783	21,609	117,124
1946	28,965	24,167	24,733	9,593		5,642	2,087	12,525	20,657	128,369
1947	29,024	31,260	26,910	12,993		7,040	1,221	15,227	19,201	142,876
1948	44,740	47,420	38,290	14,287		6,960	2,648	17,944	19,410	191,699
1949	60,782	52,567	39,230	14,655		7,446	3,017	15,995	21,778	215,470
1950	64,208	58,228	40,621	16,874		6,901	3,066	14,978	23,674	228,550
1951	76,305	65,040	41,074	19,618		7,910	4,169	17,828	33,328	265,272
1952	94,131	71,382	42,586	20,456		10,543	5,576	21,652	35,995	302,321
1953	123,336	77,648	44,745	23,928		16,213	4,754	19,821	39,055	349,500
1954	134,451	86,239	46,019	25,262		12,827	4,408	20,164	43,603	372,973
1955	142,747	92,658	46,768	27,662		13,170	5,043	25,819	45,526	399,393
1956	138,347	103,815	51,326	39,835		14,120	7,250	25,462	47,814	427,969
1957	160,558	112,970	56,594	44,743		14,987	8,678	29,161	52,092	479,783
1958	222,395	138,532	66,673	47,484		16,582	10,553	31,980	57,650	591,849
1959	248,711	145,913	76,539	51,431		14,752	8,291	33,518	63,219	642,374
1960	285,455	152,158	76,929	59,823		13,743	13,761	33,736	66,865	702,470
1961	299,459	157,656	80,600	61,518		15,434	17,915	37,603	69,206	739,391
1962	286,506	165,193	82,500	63,520	78,747**	17,044	16,370	40,397	75,075	825,352
1963	337,562	173,135	87,500	62,175	175,715	15,550	16,140	44,149	81,686	993,612
1964	374,042	183,650	97,100	75,403	186,535	17,044	11,263	44,121	89,978	1,079,136
1965	428,385	221,189	113,000	80,511	195,299	16,637	15,333	63,799	103,091	1,237,244
1966 Est.	534,254	232,000	119,000	83,720	216,000	18,423	14,162	68,838	110,695	1,397,092
1967 Est.	620,485	257,000	133,000	85,086	383,000	19,157	13,297	72,188	143,676	1,726,889

Source: Ontario, *Public Accounts*, 1939-1965; Treasurer of Ontario, *Budget Speech, 1965-1966*.

*Including Tax Rental Agreements.

**Tax in effect for seven months of the fiscal year only.

TABLE 4:18

PROVINCE OF ONTARIO

PERCENTAGE DISTRIBUTION OF PRINCIPAL REVENUES OF PROVINCIAL GOVERNMENT, 1939-67

(percentages)

Fiscal year	Personal income and corporate taxes*	Expenditure-based revenues				Forestry revenues	Mining revenues	Death taxes	Miscellaneous	Total
		Gasoline tax	L.C.B.O.	Motor vehicle permits and licences	Retail sales tax					
1939	18.7	21.3	12.7	8.8		5.0	3.4	17.7	12.4	100.0
1940	19.1	28.5	11.3	9.6		3.8	2.4	13.0	12.3	100.0
1941	27.7	25.6	10.4	8.7		4.6	2.2	10.8	10.0	100.0
1942	26.6	24.8	12.3	8.9		4.3	2.3	10.5	10.3	100.0
1943	26.7	19.4	16.0	6.6		4.7	2.3	10.7	13.6	100.0
1944	25.1	16.2	16.9	7.8		4.0	1.7	11.3	17.0	100.0
1945	24.6	16.1	16.1	7.9		4.5	1.4	10.9	18.5	100.0
1946	22.5	18.8	19.3	7.5		4.4	1.6	9.8	16.1	100.0
1947	20.3	21.9	18.9	9.1		4.9	.9	10.6	13.4	100.0
1948	23.3	24.7	20.0	7.5		3.6	1.4	9.4	10.1	100.0
1949	28.2	24.4	18.2	6.8		3.5	1.4	7.4	10.1	100.0
1950	28.1	25.5	17.8	7.4		3.0	1.3	6.5	10.4	100.0
1951	28.7	24.5	15.5	7.4		3.0	1.6	6.7	12.6	100.0
1952	31.1	23.6	14.1	6.8		3.5	1.8	7.2	11.9	100.0
1953	35.3	22.2	12.8	6.8		4.6	1.4	5.7	11.2	100.0
1954	36.1	23.1	12.3	6.8		3.4	1.2	5.4	11.7	100.0
1955	35.7	23.2	11.7	6.9		3.3	1.3	6.5	11.4	100.0
1956	32.3	24.3	12.0	9.3		3.3	1.7	5.9	11.2	100.0
1957	33.5	23.5	11.8	9.3		3.1	1.8	6.1	10.9	100.0
1958	37.6	23.4	11.3	8.0		2.8	1.8	5.4	9.7	100.0
1959	38.7	22.7	11.9	8.0		2.3	1.3	5.2	9.9	100.0
1960	40.6	21.6	11.0	8.5		2.0	2.0	4.8	9.5	100.0
1961	40.5	21.3	10.9	8.3		2.1	2.4	5.1	9.4	100.0
1962	34.7	20.0	10.0	7.7	9.5**	2.1	2.0	4.9	9.1	100.0
1963	34.0	17.4	8.8	6.3	17.7	1.6	1.6	4.4	8.2	100.0
1964	34.7	17.0	9.0	7.0	17.3	1.6	1.0	4.1	8.3	100.0
1965	34.6	17.9	9.1	6.5	15.8	1.4	1.2	5.2	8.3	100.0
1966 Est.	38.2	16.6	8.5	6.0	15.5	1.3	1.0	4.9	8.0	100.0
1967 Est.	35.9	14.9	7.7	4.9	22.2	1.1	0.8	4.2	8.3	100.0

Source: Table 4:17.

*Including Tax Rental Agreements.

**Tax in effect for seven months of the fiscal year only.

TABLE 4:19

PROVINCE OF ONTARIO

PROVINCIAL GOVERNMENT RECEIPTS FROM THE GOVERNMENT OF CANADA FOR SHARED-COST PROGRAMS AND GRANTS-IN-AID, 1939-64

Fiscal year	(thousands of dollars) Ordinary	Capital	Total
1939	17,014		17,014
1940	17,490		17,490
1941	13,521		13,521
1942	12,981		12,981
1943	12,851	69	12,920
1944	12,953	102	13,055
1945	14,261		14,261
1946	16,230		16,230
1947	19,571		19,571
1948	21,615		21,615
1949	23,176		23,176
1950	34,545		34,545
1951	36,699	2,790	39,489
1952	31,504	7,009	38,513
1953	15,888	4,923	20,811
1954	14,387	3,253	17,640
1955	16,410	6,684	23,094
1956	19,226	3,651	22,877
1957	19,289	6,157	25,446
1958	22,594	13,970	36,564
1959	49,560	19,283	68,843
1960	118,850	21,571	140,421
1961	132,050	22,583	154,633
1962	160,611	26,452	187,063
1963	190,926	130,908	321,834
1964	210,368	71,873	282,241

Source: Canada, Dominion Bureau of Statistics, *Financial Statistics of Provincial Governments*, 1941-1962. Ontario, *Public Accounts*, 1939-1964. Canada, Department of Finance, *Federal-Provincial Conditional Grant and Shared-Cost Programs*, 1962.

TABLE 4:20

PROVINCE OF ONTARIO

GROSS MONEY REVENUES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-64

	(thousands of dollars)			Indexes (1939 = 100)		
Year	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	103,857	109,811	57,795	100.0	100.0	100.0
1940	105,663	105,687	59,777	101.7	96.2	103.4
1941	117,323	99,857	59,833	113.0	90.9	103.5
1942	124,477	95,390	60,460	119.9	86.9	104.6
1943	121,134	94,927	62,795	116.6	86.4	108.7
1944	131,152	100,495	66,466	126.3	91.5	115.0
1945	131,385	106,664	63,413	126.5	97.1	109.7
1946	144,599	119,353	67,734	139.2	108.7	117.2
1947	162,447	120,974	77,607	156.4	110.2	134.3
1948	213,314	138,728	93,534	205.4	126.3	161.8
1949	238,646	156,205	107,843	229.8	142.2	186.6
1950	263,095	170,875	118,242	253.3	155.6	204.6
1951	304,761	196,235	141,667	293.4	178.7	245.1
1952	340,834	223,492	156,122	328.2	203.5	270.1
1953	370,311	237,400	180,290	356.6	216.2	311.9
1954	390,613	265,714	203,383	376.1	242.0	351.9
1955	422,487	295,762	234,397	406.8	269.3	405.6
1956	450,846	326,889	260,577	434.1	297.7	450.9
1957	505,229	372,839	298,140	486.5	339.6	515.9
1958	628,413	415,725	346,488	605.1	378.6	599.5
1959	711,217	459,334	395,645	684.8	418.3	684.6
1960	842,891	507,758	436,280	811.6	462.4	754.9
1961	894,024	545,897	487,573	860.8	497.1	843.6
1962	1,012,415	590,143	545,129	974.8	537.4	943.2
1963	1,315,446	632,457	596,307	1,266.6	576.0	1,031.8
1964	1,361,377			1,310.8		

Source: Tables 4:17, 4:19, 4:24 and 4:25.

*Fiscal years ending March 31.

TABLE 4:21

PROVINCE OF ONTARIO

NET MONEY REVENUES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-64

	(thousands of dollars)			Indexes (1939 = 100)		
Year	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	83,902	95,305	49,402	100.0	100.0	100.0
1940	85,232	93,882	50,610	101.6	98.5	102.4
1941	100,861	90,713	49,822	120.2	95.2	100.9
1942	108,360	86,916	50,270	129.2	91.2	101.8
1943	105,040	87,126	52,148	125.2	91.4	105.6
1944	114,942	91,450	55,002	137.0	96.0	111.3
1945	113,969	97,674	34,485	135.8	102.5	69.8
1946	125,214	108,136	37,125	149.2	113.5	75.1
1947	139,721	104,848	46,156	166.5	110.0	93.4
1948	188,544	114,679	56,407	224.7	120.3	114.2
1949	212,315	127,596	65,907	253.1	133.9	133.4
1950	225,395	139,427	71,462	268.6	146.3	144.7
1951	261,631	160,100	90,162	311.8	168.0	182.5
1952	298,680	181,993	101,455	356.0	191.0	205.4
1953	345,859	193,805	118,154	412.2	203.4	239.2
1954	369,332	209,351	131,364	440.2	219.7	265 9
1955	395,752	228,844	152,787	471.7	240.1	309.3
1956	424,328	253,846	176,419	505.7	266.4	357.1
1957	476,142	281,795	197,178	567.5	295.7	399.1
1958	588,208	309,281	212,795	701.1	324.5	430.7
1959	638,733	336,859	245,488	761.3	353.5	496.9
1960	698,829	372,269	275,490	832.9	390.6	557.6
1961	735,750	401,841	303,686	876.9	421.6	614.7
1962	820,728	434,587	340,713	978.2	456.0	689.7
1963	988,988	466,920	361,523	1,178.7	489.9	731.8
1964	1,074,512			1,280.7		

Source: Ontario, *Public Accounts*, 1939-1964, and Tables 4:24 and 4:25.
*Fiscal years ending March 31.

TABLE 4:22

PROVINCE OF ONTARIO

NET REAL REVENUES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-64

	(thousands of 1949 dollars)			Indexes (1939 = 100)		
Year	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	140,351	160,150	83,098	100.0	100.0	100.0
1940	140,810	149,684	81,002	100.3	93.5	97.5
1941	158,836	138,345	76,391	113.2	86.4	91.9
1942	161,780	122,884	70,893	115.3	76.7	85.3
1943	146,765	119,025	71,279	104.6	74.3	85.8
1944	156,002	120,281	72,096	111.2	75.1	86.8
1945	148,765	124,791	43,785	106.0	77.9	52.7
1946	158,962	138,867	47,553	113.3	86.7	57.2
1947	175,573	125,057	55,052	125.1	78.1	66.2
1948	218,071	118,360	59,370	155.4	73.9	71.4
1949	220,771	127,596	65,907	157.3	79.7	79.3
1950	219,576	133,602	68,300	156.4	83.4	82.2
1951	244,424	137,815	77,492	174.2	86.1	93.3
1952	251,584	150,482	83,591	179.3	94.0	100.6
1953	282,726	155,342	94,425	201.4	97.0	113.6
1954	292,935	162,919	102,149	208.7	101.7	122.9
1955	305,907	174,066	115,538	218.0	108.7	139.0
1956	321,193	183,813	126,966	228.8	114.8	152.8
1957	342,277	194,866	135,415	243.9	121.7	163.0
1958	402,111	215,527	145,640	286.5	134.6	175.3
1959	429,285	227,854	162,683	305.9	142.3	195.8
1960	454,346	248,312	178,773	323.7	155.0	215.1
1961	461,806	269,855	192,853	329.0	168.5	232.1
1962	517,124	279,208	207,360	368.5	174.3	249.5
1963	586,032	286,436	211,590	417.5	178.9	254.6
1964	622,689			443.7		

Source: Table 4:21.
*Fiscal years ending March 31.

TABLE 4:23

PROVINCE OF ONTARIO

NET REAL PER-CAPITA REVENUES OF PROVINCIAL GOVERNMENT, MUNICIPALITIES AND SCHOOL BOARDS, 1939-64

Year	(1949 dollars)			Indexes (1939 = 100)		
	Provincial government*	Municipalities	School boards	Provincial government	Municipalities	School boards
1939	38.22	43.19	22.41	100.0	100.0	100.0
1940	37.97	39.95	21.62	99.3	92.5	96.5
1941	42.39	36.52	20.17	110.9	84.6	90.0
1942	42.71	31.64	18.25	111.7	73.3	81.4
1943	37.79	30.40	18.21	98.9	70.4	81.3
1944	39.85	30.35	18.19	104.3	70.3	81.2
1945	37.54	31.20	10.95	98.2	72.2	48.9
1946	39.74	33.93	11.62	104.0	78.6	51.9
1947	42.90	29.95	13.18	112.2	69.3	58.8
1948	52.22	27.69	13.89	136.6	64.1	62.0
1949	51.64	29.14	15.05	135.1	67.5	67.2
1950	50.15	29.88	15.28	131.2	69.2	68.2
1951	54.67	29.97	16.85	143.0	69.4	75.2
1952	54.72	31.43	17.46	143.2	72.8	77.9
1953	59.05	31.44	19.11	154.5	72.8	85.3
1954	59.29	31.85	19.97	155.1	73.7	89 1
1955	59.81	33.05	21.94	156.5	76.5	97.9
1956	60.99	34.01	23.49	159.6	78.7	104.8
1957	63.33	34.58	24.03	165.7	80.1	107.2
1958	71.35	37.03	25.02	186.7	85.7	111.6
1959	73.75	38.17	27.25	193.0	88.4	121.6
1960	76.12	40.63	29.25	199.2	94.1	130.5
1961	75.57	43.27	30.93	197.7	100.2	138.0
1962	82.93	44.03	32.70	217.0	101.9	145.9
1963	92.40	44.42	32.81	241.8	102.8	146.4
1964	96.57			252.7		

Source: Tables 4:21 and 4:22.
*Fiscal years ending March 31.

TABLE 4:24

PROVINCE OF ONTARIO

CURRENT REVENUES OF MUNICIPALITIES, 1939-63

Year	(thousands of dollars)			percentage distribution		
	Total grants	Total municipal tax levy	Other revenues	Total grants	Total municipal tax levy	Other revenues
1939...........	14,506	84,327	10,978	13.21	76.79	10.00
1940...........	11,805	84,024	9,858	11.17	79.50	9.33
1941...........	9,144	80,675	10,038	9.16	80.79	10.05
1942...........	8,474	77,892	9,024	8.88	81.66	9.46
1943...........	7,801	77,609	9,517	8.22	81.76	10.02
1944...........	9,045	77,249	14,201	9.00	76.87	14.13
1945...........	8,990	83,469	14,205	8.43	78.25	13.32
1946...........	11,217	89,628	18,508	9.40	75.09	15.51
1947...........	16,126	89,222	15,626	13.33	73.75	12.92
1948...........	24,049	96,362	18,317	17.34	69.46	13.20
1949...........	28,609	108,526	19,070	18.31	69.48	12.21
1950...........	31,448	119,850	19,577	18.40	70.14	11.46
1951...........	36,135	139,897	20,203	18.41	71.29	10.30
1952...........	41,499	158,597	23,396	18.57	70.96	10.47
1953...........	43,595	167,112	26,693	18.36	70.39	11.25
1954...........	56,363	179,610	29,741	21.21	67.60	11.19
1955...........	67,133	194,395	34,234	22.70	65.73	11.57
1956...........	73,043	216,574	37,272	22.35	66.25	11.40
1957...........	91,044	243,118	38,677	24.42	65.21	10.37
1958...........	106,444	265,386	43,895	25.60	63.84	10.56
1959...........	122,475	291,049	45,810	26.66	63.36	9.98
1960...........	135,489	323,699	48,570	26.68	63.75	9.57
1961...........	144,056	350,212	51,629	26.39	64.15	9.46
1962...........	155,556	376,328	58,259	26.36	63.77	9.87
1963...........	165,537	404,284	62,636	26.17	63.92	9.91

Source: Ontario, Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1939-1963.

TABLE 4:25

PROVINCE OF ONTARIO

CURRENT REVENUES OF SCHOOL BOARDS, 1939-63

Year	Total grants (thousands of dollars)	Total school tax levy (thousands of dollars)	Other revenues (thousands of dollars)	Total grants (percentage distribution)	Total school tax levy (percentage distribution)	Other revenues (percentage distribution)
1939	8,393	39,298	10,104	14.52	68.00	17.48
1940	9,167	40,288	10,322	15.33	67.40	17.27
1941	10,011	40,852	8,970	16.73	68.28	14.99
1942	10,190	41,420	8,850	16.85	68.51	14.64
1943	10,647	43,023	9,125	16.96	68.51	14.53
1944	11,464	43,502	11,500	17.25	65.45	17.30
1945	28,928	34,485	N.A.	45.62	54.38	—
1946	30,609	37,125	N.A.	45.19	54.81	—
1947	31,451	46,156	N.A.	40.53	59.47	—
1948	37,127	52,450	3,957	39.69	56.08	4.23
1949	41,936	61,432	4,475	38.89	56.96	4.15
1950	46,780	68,555	2,907	39.56	57.98	2.46
1951	51,505	86,386	3,776	36.36	60.98	2.66
1952	54,667	101,455	N.A.	35.02	64.98	—
1953	62,136	112,862	5,292	34.46	62.60	2.94
1954	72,019	126,509	4,855	35.41	62.20	2.39
1955	81,610	141,879	10,908	34.82	60.53	4.65
1956	84,158	165,797	10,622	32.30	63.63	4.07
1957	100,962	188,394	8,784	33.86	63.19	2.95
1958	133,693	200,442	12,353	38.59	57.85	3.56
1959	150,157	234,538	10,950	37.95	59.28	2.77
1960	160,790	263,196	12,294	36.85	60.33	2.82
1961	183,887	291,098	12,588	37.71	59.70	2.59
1962	204,416	313,679	27,034	37.50	57.54	4.96
1963	234,787	341,611	19,909	39.37	57.29	3.34

Source: Ontario, Department of Education, *Report of the Minister*, 1939-1963; Department of Municipal Affairs, *Annual Report of Municipal Statistics*, 1939-1963.

TABLE 4:26

PROVINCE OF ONTARIO

PROVINCIAL, MUNICIPAL AND SCHOOL BOARD NET REAL REVENUES AS A PERCENTAGE OF REAL PROVINCIAL DOMESTIC PRODUCT, 1939-63

(based on 1949 dollars)

Year	(1) Provincial government*	(2) Municipalities	(3) School boards	(4) Local (2+3)	(5) Provincial and local (1+4)
1939	3.97%	4.53%	2.35%	6.88%	10.85%
1940	3.45	3.67	1.99	5.66	9.11
1941	3.35	2.92	1.61	4.53	7.88
1942	3.01	2.28	1.32	3.60	6.61
1943	2.57	2.08	1.25	3.33	5.90
1944	2.71	2.09	1.25	3.34	6.05
1945	2.61	2.19	0.77	2.96	5.57
1946	2.98	2.60	0.89	3.49	6.47
1947	3.26	2.32	1.02	3.34	6.60
1948	3.98	2.16	1.08	3.24	7.22
1949	3.82	2.21	1.14	3.35	7.17
1950	3.49	2.13	1.09	3.22	6.71
1951	3.79	2.14	1.20	3.34	7.13
1952	3.64	2.18	1.21	3.39	7.03
1953	3.90	2.14	1.30	3.44	7.34
1954	4.05	2.25	1.41	3.66	7.71
1955	3.86	2.20	1.46	3.66	7.52
1956	3.83	2.19	1.52	3.71	7.54
1957	3.91	2.23	1.55	3.78	7.68
1958	4.55	2.44	1.65	4.09	8.64
1959	4.69	2.49	1.78	4.27	8.96
1960	4.91	2.68	1.93	4.61	9.52
1961	4.86	2.84	2.03	4.87	9.73
1962	5.22	2.82	2.09	4.91	10.13
1963	5.64	2.75	2.04	4.79	10.43

Source: Tables 4:7 and 4:22.

*Fiscal years ending March 31.

TABLE 4:27

PROVINCE OF ONTARIO

NET CAPITAL DEBT OF PROVINCIAL GOVERNMENT AND PROVINCIAL DOMESTIC PRODUCT, 1943-66

Fiscal year	Provincial government net capital debt (millions of dollars)	Provincial domestic product* (billions of dollars)	Net capital debt as a percentage of domestic product**
1943	500	3.7	13.5
1944	486	4.1	11.9
1945	483	4.3	11.2
1946	480	4.3	11.2
1947	494	4.2	11.8
1948	468	4.6	10.2
1949	486	5.3	9.2
1950	510	5.8	8.8
1951	523	6.5	8.0
1952	554	7.4	7.5
1953	605	8.3	7.3
1954	630	8.7	7.2
1955	661	8.9	7.4
1956	705	9.8	7.2
1957	758	10.8	7.0
1958	819	11.7	7.0
1959	901	12.0	7.5
1960	994	12.8	7.8
1961	1,093	13.2	8.3
1962	1,209	13.7	8.8
1963	1,284	14.6	8.8
1964	1,345	15.6	8.6
1965	1,365	17.0	8.0
1966	1,464	18.5	7.9

Source: Treasurer of Ontario, *Budget Speech*, Table A-6, selected years.

*Figure for the calendar year ending on the preceding December 31. Estimates derived by Ontario Department of Economics and Development.

**Ratio of debt of fiscal year to P.D.P. of nearest calendar year.

TABLE 4:28
PROVINCE OF ONTARIO

MUNICIPAL AND SCHOOL BOARD DEBT
SELECTED YEARS, 1939–1964

	(thousands of dollars)					Indexes (1939 = 100)					Gross debt	Net debt
	Gross debt*						Gross debt				as a percentage of	
Year	Municipal	School board	Total	Accumulated sinking fund**	Net debt	Year	Municipal	School board	Total	Net debt	P.D.P.	P.D.P.
1939	215,364	59,499	274,863	44,832	230,031	1939	100.0	100.0	100.0	100.0	13.1	11.0
1941	188,887	53,114	242,001	38,131	203,870	1941	87.7	89.3	88.0	88.6	7.7	6.4
1943	159,404	45,070	204,474	33,926	170,548	1943	74.0	75.8	74.4	74.1	5.0	4.1
1945	123,954	43,042	166,996	25,597	141,399	1945	57.6	72.4	60.8	61.5	3.9	3.3
1947	120,447	46,412	166,859	20,330	146,529	1947	55.9	78.0	60.7	63.7	3.6	3.2
1949	150,777	71,745	222,522	12,659	209,863	1949	70.0	120.6	81.0	91.2	3.8	3.6
1951	197,141	120,916	318,057	8,847	309,210	1951	91.5	203.2	115.7	134.4	4.3	4.2
1953	243,236	178,546	421,782	6,642	415,140	1953	112.9	300.1	153.5	180.5	4.8	4.8
1955	291,513	238,284	529,797	4,008	525,789	1955	135.4	400.5	192.7	228.6	5.4	5.4
1957	394,131	343,371	737,502	9,150	728,352	1957	183.0	577.1	268.3	316.6	6.3	6.2
1959	535,243	449,186	984,429	24,788	959,641	1959	248.5	755.0	358.2	417.2	7.8	7.6
1960	611,896	514,249	1,126,145	37,739	1,088,406	1960	284.1	864.3	409.7	473.2	8.7	8.4
1961	670,539	555,990	1,226,529	51,301	1,175,228	1961	311.4	934.5	446.2	510.9	9.1	8.7
1962	751,595	586,761	1,338,356	69,270	1,269,086	1962	349.0	986.2	486.9	551.7	9.4	8.9
1963	828,320	629,493	1,457,813	92,003	1,365,810	1963	384.6	1,058.0	530.4	593.8	9.5	8.9
1964	951,802	671,192	1,622,994	120,072	1,502,922	1964	442.0	1,128.1	590.5	653.4	9.7	9.0

Source: Ontario, Department of Municipal Affairs, *Annual Report of Municipal Statistics*, selected years.

*Excludes gross debt of municipal utilities and municipal enterprises.

**Share of local sinking funds imputed to municipalities and school boards.

Chapter 5

The Incidence of Government Revenue and Expenditure

INTRODUCTION

1. In this chapter we present a summary analysis of the patterns in which the burdens of taxation and the benefits of government expenditure are allocated among Ontario residents, classified according to size of income. As will soon become abundantly clear, the task of determining the net incidence of fiscal operations is fraught with difficulty, particularly since we have attempted to recognize the effects of the revenue and expenditure programs of all levels of government within Canada. The reader is therefore cautioned that our results should be regarded not as empirically verified facts but as logical conclusions derived from the application of appropriate operating assumptions to the available data.[1] To the extent that our assumptions are reasonable, our study of tax and expenditure incidence will yield results that approximate the actual distribution of

[1]It is not possible within the confines of this chapter to set forth the multiplicity of assumptions that must be made to undertake an empirical investigation of this sort. These are spelled out in detail in the supporting monograph by J. A. Johnson, *The Incidence of Government Revenues and Expenditures*, on which this chapter is based; the interested reader is referred to this source for a more extensive treatment of the subject. This monograph is one of several background studies being published by The Ontario Committee on Taxation.

tax burdens and expenditure benefits, by income classes, among Ontario taxpayers. Such knowledge is fundamental in our search for equity in the Ontario fiscal system.

2. In the light of the difficulties involved in any analysis of fiscal incidence, one may well ask why such a study has been undertaken. The answer is found in the basic importance of determining even an approximation of the patterns of tax burdens and expenditure benefits among Ontario citizens. Without this information, the government's continuing task of improving the equity and the economic efficiency of its fiscal operations becomes virtually impossible. On the other hand, an awareness of the broad incidence of its revenue and expenditure programs will enable the government to formulate policies directed to greater equity and to a more efficient allocation of resources, judged in accordance with democratically determined objectives. It is in the light of these broad objectives that the Ontario government must make decisions relating to changes in the aggregate level and composition of both its revenues and its expenditures and to the consequent changes in the distribution of income among the residents of the province.

3. Ideally, our study should measure, as among these income groups, welfare losses and gains that are related to government taxation and expenditure programs. But welfare being a most elusive concept, we must resort to what is at best an imperfect measuring-rod, namely the money burdens and money benefits associated with the government's fiscal operations. To illustrate the difficulties associated with this particular yardstick of welfare, two points may be emphasized. The first is that dollar transfers cannot be assumed to provide a quantitative measurement of underlying welfare—the public expenditure of $1 million on education may yield social benefits that are valued far in excess of this amount.[2] The second point is that a tax burden of a specified dollar amount will involve significantly different real burdens, depending on whom it falls upon—i.e., according to its particular distribution both as among income groups and within each income group. These differential effects likewise relate to the real benefits from government expenditure.

4. In theory, the incidence of money burdens and benefits arising from government taxation and expenditure programs could be determined by comparing the present distribution of income with the hypothetical distribution that would prevail in the absence of taxes and governmental services. Unfortunately, this second distribution cannot be determined because tax and expenditure programs change the supplies and demands both of factors of production and of goods and services. As a consequence, the level and distribution of national income may be significantly different from what they would be in the hypothetical situation from which government is absent. The most that can therefore be done in this kind of study is to relate the actual dollar amounts of taxes paid by each income class and the actual dollar amount of expenditures deemed to benefit the members of that

[2]Recent empirical work would seem to indicate that property values tend to rise when local improvements are undertaken. This suggests that the benefits to be derived from improvements are valued more highly than the taxes necessary to pay for them, the difference in the valuation being capitalized and reflected in higher property values.

class. Because these amounts will typically not be equal, the revenue and expenditure programs of government occasion a redistribution of income as among income classes. The main purpose of this study is to estimate the extent of this redistribution, recognizing that even rough approximations will appreciably advance our present knowledge in this crucial aspect of government finance.

5. As already explained, we shall appraise the tax and expenditure programs that impinge upon Ontario residents solely in terms of their impact upon the income distribution of these residents. We recognize that the dimensions of economic welfare embrace much more than income and include such additional factors as asset holdings, asset liquidity, regularity of income receipt, and access to lending facilities. The distributional implications of tax and expenditure programs could undoubtedly be investigated with respect to one or other of these dimensions of welfare, but we think that the use of income as our criterion is readily defended. In the first place, income is now widely regarded as the best single index of relative economic welfare. Second, and more important, it may be argued that all taxes are ultimately paid out of the incomes of individuals, whatever the initial assessment formula. Finally, the use of this base is in accordance with the practice of comparable studies that have been conducted in other countries. For these reasons, the impact of government on the distribution of income has been the primary subject of this investigation.

6. The taxpaying unit that we utilize is the "economic family", defined as "a group of two or more persons living together and related to each other by blood, marriage, or adoption".[3] To this type of unit must be added non-family individuals who reside either by themselves or with an unrelated household. The use of the economic-family concept may be justified on two distinct grounds. First, such a family typically pools its resources and behaves economically as a single unit. Similarly, the unattached individual is an economically separate decision-making unit. Second, the use of these units finds practical justification in the fact that much of the available relevant data are classified with respect to them. The procedure adopted in the study is therefore to classify Ontario residents first as families and unattached individuals and then to classify these categories with respect to size of income.

7. The particular income concept that we utilize in classifying families and unattached individuals is money income, the major components of which are wages and salaries, farm income, investment income, income from self-employment, and transfer payments. This concept conforms rather closely to what most families generally regard as their "income". Moreover, many of the basic data series used in the study are classified with respect to this interpretation. In some respects, however, it is not a totally satisfactory measure. It ignores the imputed rental value of owner-occupied housing, food and fuel produced and consumed on the farm, and other income components that undoubtedly contribute to taxable capacity. It also fails to treat tax burdens and governmental benefits in a symmetrical

[3]Dominion Bureau of Statistics, Census Division, *Characteristics of Economic Families*, Ottawa: Queen's Printer, 1959.

fashion, which would necessitate viewing the former as a subtraction from, and the latter as an addition to, income. In consequence, although we have determined the basic income distribution used in the study with reference to money income, when we turn to the estimating of effective rates of taxation and of benefits, we introduce a somewhat more comprehensive measure of income.

8. In the following sections of this chapter, we first consider the methods of estimating tax and expenditure incidence. We then determine the net burdens and benefits relating to each money-income class, and use the results to develop the concept of Adjusted Broad Income, this being more comprehensive than that of money income. For each income class, the rates of net burden and benefit are then determined by dividing their dollar amounts by the amounts of adjusted income in each money-income class. Finally, we analyse the distributional impact of government finance by reference to the resulting effective burden and benefit rates.

THE BASIS OF ESTIMATING INCIDENCE

9. The following paragraphs provide no more than a summary statement of the techniques that we have used in allocating tax revenues to the various income groups within this province. The reader who wishes to ascertain precisely how our results were obtained is referred to the monograph on which this chapter is based.[4] Here we simply outline our general procedure and list our major assumptions relating to the shifting and incidence of taxation.

10. The funds allocated by income group encompass virtually all sources of governmental revenue. In addition to tax revenues, they include revenues from licences and fees, fines and penalties, and profits from the sale of alcoholic beverages. This inclusive coverage is dictated by our desire to treat revenues as comprehensively as expenditures—all of which are included in our study—and by the difficulty of justifying any particular dividing line between those revenues that might be included and those excluded.

11. The allocation of taxes to particular income groups involves the formulation of reasonable assumptions regarding their shifting and incidence. Is the burden of a particular tax likely to rest with the legal taxpayer or will it in some degree be shifted forward to purchasers of the legal taxpayer's products or services, or back to those from whom the legal taxpayer makes purchases? Such shifting as in fact occurs is determined both by the type of tax levied and by the position of the taxpayer in the market-place. We observe that the "openness" of the Ontario economy considerably complicates our analysis, in that traditional incidence theory has been concerned mainly with the problem of identifying tax burdens in the context of a self-contained economy. The complications of determining incidence in a jurisdiction having extensive external economic transactions are substantial.

12. Having formulated the most appropriate assumptions concerning tax incidence, it then becomes possible to allocate the various tax burdens to the

[4]See Johnson, *Incidence of Government Revenues and Expenditures.*

appropriate economic groups. A consideration of the extent to which these economic groups are resident in Ontario then permits a division of the tax burdens between provincial residents and non-residents. Finally, when it has been decided how much of each tax or other revenue source should be imputed to each of the resident economic groups, this amount must be converted into a distribution of burdens among the various income classes. Thus, if it has been determined that a particular levy burdens the consumers of a specific class of commodities, consumption studies may indicate the division, by income classes, of total expenditure on this class of commodities. The total levy may then be allocated among the income classes in proportion to total expenditure on the commodities in question.

13. We have already observed that some part of the burden of taxation initially imposed upon Ontario taxpayers is shifted to non-residents. This process is effected either through purchases that non-residents make within Ontario—as for example

TABLE 5:1

GOVERNMENTAL REVENUES BY SOURCE, 1961

(millions of dollars)

	Ontario Provincial and Municipal		*Federal*		*Other Provincial and Municipal*	
Revenue Item	*Total*	*Ontario Share**	*Total*	*Ontario Share**	*Ontario Share**	*Total Ontario Payments*
Personal income tax..........	120.7	120.7	1,850.0	847.4	—	968.1
Corporation income tax.......	151.8†	56.2	1,232.0	373.3	56.9	486.4
General sales tax............	141.2‡	127.9	1,045.0	352.0	—	479.9
Highway-user revenues.......	247.1	146.8	—	—	48.6	195.4
Selective excise taxes.........	94.7§	83.0	623.0**	181.4	—	264.4
Succession duties............	40.4	39.0	71.0	34.5	—	73.5
Import duties................	—	—	535.0	180.1	—	180.1
Property tax.................	644.8††	456.1	—	—	90.1	546.2
Natural-resource revenue......	43.1	17.0	—	—	65.6	82.6
Social insurance contributions.	89.0	72.0	394.0	163.0	—	235.0
Other taxes and miscellaneous revenue..................	186.5‡‡	164.7	107.8	38.1	21.1	223.9
Total..................	1,759.3	1,283.4	5,857.8	2,169.8	282.3	3,735.5

Sources: Dominion Bureau of Statistics, *Financial Statistics of the Government of Canada, 1961*; *Financial Statistics of Provincial Governments, 1961*: *Financial Statistics of Municipal Governments, 1961*. Municipal data refer to calendar years, federal and provincial data to nearest fiscal years.

*The amount paid by non-residents of Ontario is estimated utilizing the assumptions made regarding the shifting of taxes to non-residents.

†Includes small amount of tax, collected under The Corporations Tax Act, that is not based on income.

‡The figure shown represents an estimate of the yield of this tax for 12 months. Since it was actually in effect for only 7 months of the year, the annual revenue is obtained by multiplying the actual yield by 12/7.

§Includes amusement taxes and revenue from liquor sales and licences.

**Includes excises on liquor, tobacco, automobiles, and other commodities.

††Includes the business levy as well as the property tax.

‡‡The largest item is hospital premiums ($89.5 million). Includes licences (other than liquor and motor vehicle), fines, tax on premium income of insurance companies.

TABLE 5:2

DISTRIBUTION OF TAX BURDENS, BY FAMILY MONEY-INCOME CLASSES, 1961

(thousands of dollars)

	Under $2,000	*$2,000-2,999*	*$3,000-3,999*	*$4,000-4,999*	*$5,000-6,999*	*$7,000-9,999*	*$10,000 and over*	*Burden on Ontario residents*	*Burden on non-residents* (%)	*Total burden*
Provincial Revenues (Ontario)										
Personal income tax	603	1,086	4,705	10,979	35,834	33,421	34,072	120,700	— —	120,700
Corporation income tax	2,704	3,070	4,069	5,887	11,244	9,655	19,571	56,200	95,600 (63)	151,800
General sales tax	5,321	6,844	12,014	18,227	36,643	31,387	17,464	127,900	13,300 (9)	141,200
Highway-user revenues	3,009	5,449	10,356	23,706	45,873	38,199	20,208	146,800	100,300 (41)	247,100
Excise taxes	3,134	2,644	7,275	12,310	25,422	21,979	10,236	83,000	11,700 (12)	94,700
Succession duties							39,000	39,000	1,400 (3)	40,400
Natural-resource revenue	903	865	1,199	1,658	3,404	3,231	5,740	17,000	26,100 (61)	43,100
Social insurance contributions (includes $9 million munic.)	1,584	3,000	5,556	10,488	22,956	18,660	9,756	72,000	17,000 (19)	89,000
Hospital premiums	11,547	8,324	9,756	14,232	24,884	14,948	5,809	89,500	— —	89,500
Other taxes and misc. revenue	2,400	2,123	2,930	4,435	8,283	6,287	6,042	32,500	12,200 (27)	44,700
Total	31,205	33,405	57,860	101,922	214,543	177,767	167,898	784,600	277,600 (26)	1,062,200
Municipal Revenues (Ontario)										
Property tax	38,745	29,816	40,157	61,245	110,505	80,438	64,094	425,000	139,500 (25)	564,500
Business tax	1,700	1,778	2,553	3,903	7,575	6,119	7,472	31,100	49,200 (61)	80,300
Miscellaneous revenue	3,920	3,201	4,052	6,191	10,861	7,707	6,768	42,700	9,600 (18)	52,300
Total	44,365	34,795	46,762	71,339	128,941	94,264	78,334	498,800	198,300 (28)	697,100

Total Ontario Provincial and Municipal Revenue	75,570	68,200	104,622	173,261	343,484	272,031	246,232	1,283,400	475,900	(27)1,759,300
Provincial and Municipal Revenue (Other than Ontario)										
Corporation income tax	2,557	3,038	3,852	5,379	10,162	9,078	22,834	56,900		
Highway-user revenues	2,892	2,872	4,481	7,257	14,352	10,982	5,764	48,600		
Property tax	4,858	5,125	7,222	10,893	21,022	17,137	23,843	90,100		
Natural resources	2,957	3,487	4,424	6,154	11,668	10,502	26,408	65,600		
Other taxes and misc. revenue	649	963	1,286	1,700	3,424	3,312	9,766	21,100		
Total	13,913	15,485	21,265	31,383	60,628	51,011	88,615	282,300		
Total Provincial and Municipal Revenue (All Canada)	89,483	83,685	125,887	204,644	404,112	323,042	334,847	1,565,700		
Federal Revenues										
Personal income tax	4,237	7,627	33,048	77,114	251,678	234,730	238,966	847,400	1,002,600	1,850,000
Corporation income tax	17,475	20,204	26,305	37,515	71,334	62,230	138,237	373,300	858,700	1,232,000
General sales tax	15,533	18,324	30,639	52,914	104,534	84,792	45,264	352,000	693,000	1,045,000
Other excises	9,529	9,749	17,984	29,238	57,935	39,232	17,733	181,400	441,600	623,000
Estate tax							34,500	34,500	36,500	71,000
Social insurance contributions	6,985	14,307	27,104	44,534	39,172	20,286	10,612	163,000	231,000	394,000
Import duties	11,166	10,806	16,749	26,835	52,769	40,523	21,252	180,100	354,900	535,000
Miscellaneous revenue	2,986	2,807	3,363	5,046	8,891	6,612	8,395	38,100	69,700	107,800
Total	67,911	83,824	155,192	273,196	586,313	488,405	514,959	2,169,800	3,688,000	5,857,800
Total Revenue for All Levels of Government	157,394	167,509	281,079	477,840	990,425	811,447	849,806	3,735,500		

Source: J. A. Johnson, *Incidence of Government Revenues and Expenditures.*

in tourists' purchases—or through the higher prices, reflecting the forward shifting of taxes, that must be paid for the exports of the province. The extent to which tax burdens may be shifted to non-residents will depend upon the competitive position of Ontario producers in outside markets, these encompassing markets in other provinces as well as in other nations. Where producers are able to exercise significant control over prices, shifting possibilities will exist in external markets in the same way as in markets within this province. On the other hand, if trade must be carried on at established world prices, there will be little room for shifting tax burdens to non-residents.

14. Given the present diversity of markets and market structures in which Ontario production is sold, it is extremely difficult to determine the extent to which those tax burdens, reflected in higher prices, are in fact exported to non-residents. A thorough analysis would require an examination of the internal and external market conditions for each class of commodities, a task far beyond the compass of this study. In consequence, we have found it necessary to make several rather arbitrary assumptions. The first relates to federal taxation, and indicates that 18 per cent of that part of the burden reflected in higher prices is exported to non-residents of Canada. This selected percentage reflects the ratio of the dollar value of exported goods to Gross Domestic Product. The remainder of the shifted federal tax burden is then allocated as among Ontario and the other provinces in proportion to the aggregate consumption expenditure of their residents. Similar computations were then made concerning the proportions of the various provincial and municipal burdens shifted forward through higher prices, and for each of these levels of government comparable assumptions were formulated concerning the distribution of the shifted burden as between residents and non-residents of the province. In summary, the percentage shares of the total Canadian burden of these forward-shifted taxes which are assumed to be borne by Ontario residents are as follows:

(1)	Federal taxes	37%
(2)	Ontario provincial and municipal taxes	50%
(3)	Other provincial and municipal taxes	31%

15. Another possible mechanism by means of which tax burdens may be transferred to non-residents is through tax-reduced rates of return on capital invested in the taxing jurisdiction. The unshifted portions of the corporate income tax and of property taxes both reduce the net rate of return to capital, and thereby cause some part of their burden to be transferred to non-residents, the actual transfer being roughly proportional to the ratio of non-resident to resident capital holdings subject to taxation. Because foreign investment accounted for approximately 34 per cent of total investment in Canada in 1961, we assigned to Canadian residents 66 per cent of the burdens on profits. The Ontario share of this burden was determined as the proportion of dividends received by Canadians that accrued to residents of this province.

16. By methods similar to those used to estimate the extent to which taxes imposed in Ontario were exported to non-residents, the burdens imported into

Ontario from other jurisdictions were also estimated. Table 5:1, which summarizes these results, shows, for the federal government, the Ontario government and municipal governments within Ontario, the total receipts from each revenue source and the share of these receipts borne by Ontario residents. Also shown are the burdens of taxes of other jurisdictions borne by Ontario residents.

17. When revenue burdens have been assigned to the various economic groups and categories in accordance with our assumptions regarding shifting and incidence, we then distribute these burdens among the family money-income classes. The results obtained by this procedure are summarized in Table 5:2, where the dollar amounts assigned to each family money-income class are shown.

THE METHOD OF ESTIMATING THE INCIDENCE OF GOVERNMENT EXPENDITURES

18. Any analysis of the impact of government finance on income distribution would be incomplete without a consideration of the manner in which the benefits derived from governmental expenditures accrue to different income classes. Unfortunately, this subject has received less attention in the literature of public finance than has the comparable problem of tax incidence, which suggests that the results obtained here should be considered more tentative than those in our preceding section.

19. In analysing the incidence of governmental expenditures, it is useful to distinguish between transfer payments (for example, old age security and family allowance payments) and expenditures on goods and services. We treat the former as negative taxes which are assumed to augment the income of the recipients by the amount of the transfers received. Expenditures on goods and services are more difficult to deal with. Ideally, it is desirable to consider the distribution of welfare gains generated by the expenditure programs. In practice, however, we have noted that this is impossible. Public expenditure programs that satisfy social wants usually do not involve direct sales to consumers and there is therefore no market price that can be used as a money measure of the welfare gained by the consumer. Lacking such an indicator, we have found it necessary to adopt the alternative approach of determining the distribution, by income class, of costs incurred on behalf of families and unattached individuals. These costs are viewed as components of the real incomes of the beneficiaries—components that should be added to their money incomes in arriving at a more comprehensive income concept.

20. In allocating to various income classes the costs incurred on behalf of their members, we take account only of the direct beneficiaries. While we recognize that educational expenditures, for example, yield benefits to virtually all citizens, the procedure that we have adopted allocates the total expenditure upon education among families in proportion to student members. This approach is dictated by the lack of available data on the distribution of indirect benefits by income class.

21. The technique used to estimate the distributional impact of government expenditures is similar to that used in the determination of tax incidence. Having classified the expenditure items to be included in our analysis, we then formulated

assumptions concerning the likelihood of the shifting of benefits, and these results were used to determine the beneficiaries on whose behalf the expenditures were made.[5] A consideration of the composition of the beneficiary groups then permitted the non-resident share of each type of expenditure to be deducted from the total. Finally, the remaining benefits accruing to residents were allocated to the various income classes by reference to the distribution of the beneficiary groups among the income classes.

22. In addition to distinguishing between transfer payments and governmental expenditures on goods and services, we also found it necessary to differentiate between *specific* and *general* governmental expenditures. The former category includes those expenditure items whose beneficiaries are readily identifiable. Approximately 70 per cent of total expenditures fall into the specific category. The remaining 30 per cent comprises expenditure items, such as those on national defence, general government and protection, that benefit the entire population but whose benefit pattern is ill-defined. While there is no generally accepted best method by which these expenditures may be allocated to different income classes, such an allocation must be made if the net distributional impact of government is to be determined. To omit these items while including revenue sources in their entirety would understate the net benefits of government and misrepresent the distributive impact of its fiscal operations.

23. In the literature of public finance, a number of alternative assumptions have been developed as the basis for allocating the benefits of general expenditures. Thus, it has been assumed in some studies that all individuals benefit equally from such expenditures. In others, the assumption that families rather than individuals benefit equally has been preferred. A third assumption occasionally encountered is that families benefit from general expenditures in proportion to their total income. Lastly, some studies have assumed that families benefit from such expenditures in a manner proportional to their investment income.

24. While for some types of general expenditures some one of these hypotheses may be preferable to the others, we think that there are no clear grounds for any over-all priority. We therefore have made no attempt in this study to vary our assumptions with the type of general outlay. We have chosen to apply each of the four hypotheses to the entire range of general expenditure and the distribution that we employ reflects the average of the results obtained by using each assumption in turn.

25. The reader should note particularly that unconditional grants from one level of government to another are omitted from the expenditures of the paying level of government, and from the income of the recipient level. This practice is dictated by the desire to avoid double counting and an overstatement of the total burden of government. Conditional grants, on the other hand, are shown as expenditures of the paying government.

[5]Some of the more important of the assumptions regarding shifting are listed in the appendix to this chapter.

TABLE 5:3

ALLOCATION OF GOVERNMENTAL EXPENDITURES, 1961

(millions of dollars)

	Ontario						Other Provincial and Municipal	
	Provincial		Municipal		Federal			Total
Expenditure item	*Total*	*Ontario Share**	*Total*	*Ontario Share**	*Total*	*Ontario Share**	*Ontario Share**	*Ontario Receipts*
Highways, roads and bridges.........	246.2	174.0	134.2	96.5	89.0	34.9	39.8	345.2
Other transportation and communication†	—	—	—	—	305.0	80.4	—	80.4
Education...........	271.0	271.0	343.6	343.6	93.0	36.0	—	650.6
Health and sanitation.	228.4	228.4	139.1	114.6	366.0	125.3	6.5	474.8
Interest.............	49.4	17.6	40.2	12.9	653.4	240.8	19.5	290.8
Social welfare‡......	116.8	116.8	27.3	27.3	2,266.0	772.2	—	916.3
Agriculture..........	9.5	9.5	—	—	295.0	118.1	—	127.6
General expenditure§.	142.5	118.6	274.4	229.5	2,678.4	945.7	55.9	1,349.7
Total...........	1,063.8	935.9	958.8	824.4	6,745.8	2,353.4	121.7	4,235.4

Sources: Dominion Bureau of Statistics, *Financial Statistics of the Government of Canada, 1961*; *Financial Statistics of Provincial Governments, 1961*; *Financial Statistics of Municipal Governments, 1961.* Municipal data refer to calendar years, federal and provincial data to nearest fiscal years.

*The amounts of the various expenditures received by non-residents are estimated with the aid of the assumptions regarding the incidence of each type of expenditure.

†Includes expenditure on air, water and rail transport.

‡Includes old age security payments, family allowances, government pensions, payments to veterans, unemployment insurance and other miscellaneous transfer payments.

§The major components in this general category are defence services and mutual aid, general government, protection of persons and property, recreation and cultural services, natural resources and primary industries and payments to government enterprises.

26. As indicated above, some of the benefits of governmental expenditures accrue to non-residents. Foreign ownership of businesses located in Canada is the primary vehicle by means of which this exportation occurs. The various expenditure items allocated in the study are presented in summary form in Table 5:3, while their distribution among family income classes is shown in Table 5:4.

BURDENS AND BENEFITS, BY MONEY-INCOME CLASSES

27. Our analysis has now been developed to the point where it is possible to present, in Tables 5:2 and 5:4, the aggregate monetary burden imposed upon each family money-income class of Ontario residents and the aggregate money benefits accruing from expenditures on their behalf. We emphasize that this distribution encompasses the fiscal operations of all levels of government within Canada. Because the number of economic units—i.e., families and unattached individuals—varies among money-income classes, the data in Tables 5:2 and 5:4 do not directly indicate the manner in which tax burdens and expenditure benefits vary in relation to money income. For this purpose, the dollar amounts of burden and benefit must be converted to effective rates, an objective easily achieved by dividing the dollar

TABLE 5:4

DISTRIBUTION OF GOVERNMENT EXPENDITURES BY FAMILY MONEY-INCOME CLASSES, 1961

(thousands of dollars)

	Under $2,000	*$2,000-2,999*	*$3,000-3,999*	*$4,000-4,999*	*$5,000-6,999*	*$7,000-9,999*	*$10,000 and over*	*Benefit to Ontario residents*	*Benefit to non-residents*	(%)	*Total benefit*
Provincial Expenditures (Ontario)											
Highways, roads and bridges.....	6,964	9,001	14,613	26,350	54,352	39,307	23,413	174,000	72,200	(29)	246,200
Education.....................	9,232	16,806	28,661	52,929	83,429	51,483	28,460	271,000	—	—	271,000
Health and sanitation...........	21,958	19,063	25,580	41,166	66,677	39,376	14,580	228,400	—	—	228,400
Interest.......................	1,564	1,110	1,166	1,677	3,919	3,658	4,506	17,600	31,800	(64)	49,400
Social welfare..................	25,794	18,723	12,009	14,256	21,822	17,463	6,733	116,800	—	—	116,800
Agriculture....................	3,962	1,805	1,291	855	903	418	266	9,500	—	—	9,500
General expenditures............	10,735	8,927	11,312	17,369	30,321	21,548	18,388	118,600	23,900	(17)	142,500
Total.......................	80,209	75,435	94,632	154,602	261,423	173,253	96,346	935,900	127,900	(12)	1,063,800
Municipal Expenditures (Ontario)											
Highways, roads and bridges.....	4,610	5,274	8,263	14,505	29,386	21,256	13,206	96,500	37,700	(28)	134,200
Education.....................	11,339	22,334	39,858	74,218	110,983	63,222	21,646	343,600	—	—	343,600
Health and sanitation...........	14,434	10,660	12,510	17,876	30,761	20,050	8,309	114,600	24,500	(18)	139,100
Interest.......................	1,075	782	886	1,291	3,039	2,802	3,025	12,900	27,300	(68)	40,200
Social welfare..................	5,744	5,035	2,980	3,590	5,003	3,804	1,144	27,300	—	—	27,300
General expenditures............	20,858	17,306	21,878	33,638	58,475	41,750	35,595	229,500	44,900	(16)	274,400
Total.......................	58,060	61,391	86,375	145,118	237,647	152,884	82,925	824,400	134,400	(14)	958,800
Total Provincial and Municipal Expenditures (Ontario)........	138,269	136,826	181,007	299,720	499,070	326,137	179,271	1,760,300	262,300	(13)	2,022,600

Provincial and Municipal Expenditures (Other than Ontario)										
Highways, roads, bridges and other transportation	1,933	2,208	3,458	5,736	11,536	8,818	6,111	39,800		
Health and sanitation	403	390	605	968	1,904	1,463	767	6,500		
Interest	1,475	1,154	1,241	1,730	3,936	3,752	6,212	19,500		
General expenditures	1,788	2,710	2,657	2,820	4,724	5,866	35,335	55,900		
Total	5,599	6,462	7,961	11,254	22,100	19,899	48,425	121,700		
Total Provincial and Municipal Expenditures (All Canada)	143,868	143,288	188,968	310,974	521,170	346,036	227,696	1,882,000		
Federal Expenditures										
Highways, roads and bridges	1,598	1,878	2,989	5,259	10,709	7,794	4,673	34,900	54,100	89,000
Other transportation	5,224	5,472	8,398	11,059	23,148	17,818	9,281	80,400	224,600	305,000
Education	1,303	2,018	3,072	5,545	9,995	7,268	6,799	36,000	57,000	93,000
Health and sanitation	12,424	10,529	14,013	22,408	36,511	21,458	7,957	125,300	240,700	366,000
Interest	24,856	16,620	14,966	21,047	48,765	46,564	67,982	240,800	412,600	653,400
Social welfare	188,141	104,100	74,322	96,610	159,927	107,972	41,128	772,200	1,493,800	2,266,000
Agriculture	8,470	19,782	19,536	16,454	22,053	14,293	17,512	118,100	176,900	295,000
General expenditures	76,438	67,139	83,513	125,833	220,722	164,377	207,678	945,700	1,732,700	2,678,400
Total	318,454	227,538	220,809	304,215	531,830	387,544	363,010	2,353,400	4,392,400	6,745,800
Total Expenditures for All Levels of Government	462,322	370,826	409,777	615,189	1,053,000	733,580	590,706	4,235,400		

Source: J. A. Johnson, *Incidence of Government Revenues and Expenditures.*

amounts assigned to each money-income class by the total income enjoyed by the members of that class.

28. It will be readily apparent that the resulting effective rates for the several income classes and the pattern of variation in rates from class to class will depend upon the concept of income that is chosen. It is therefore most important that an appropriate index of income be devised and, in particular, that the effects of government revenues and expenditures upon the distribution of income be treated in symmetrical fashion. This will be achieved where the income base is defined as including all fiscal operations of the public sector and where, as a result, the distributive effects of revenues and expenditures will be expressed as percentages of an income base in which payments to government have been subtracted and benefits from government added.

ADJUSTED BROAD INCOME

29. In Table 5:5, we present an income distribution that satisfies these requirements. Family money income has been adjusted to include the following elements of imputed income: the rental value of owner-occupied homes, interest income, food and fuel produced and consumed on farms, and the investment income of life insurance companies. In addition, the retained earnings of companies, together with the unshifted portion of the corporate income tax and those parts of the property tax and government natural resource revenue that are borne by stockholders, are assigned to the income classes in proportion to dividends received. These last adjustments are necessary since, where unshifted taxes on business are allocated to the owners of business, consistency requires that the income from which the taxes are paid also be assigned to them. From the resultant income distribution, payments to government are then subtracted and benefits received are added. Because it includes the governmental sector, and to distinguish it from other income concepts, we refer to what emerges from these adjustments as the distribution of *adjusted broad income*. The desired tax and benefit rates then are obtained by dividing the dollar amounts of payments and benefits for each income class, as shown in Tables 5:2 and 5:4, by the corresponding amounts of adjusted broad income shown in Table 5:5. Finally, the results so obtained are summarized in Tables 5:6 and 5:7.[6]

EFFECTIVE RATES OF INCIDENCE

EFFECTIVE TAX RATES

30. In discussing the variation in effective tax and benefit rates that emerges from our study, we shall use the terms "progressive" and "regressive" to describe the pattern. Where rate variations reflect a reduction in income inequality, the pattern is described as progressive. Thus, if effective tax rates rise, or benefit rates fall, in moving from a lower to a higher income class, the pattern of rates will be

[6]Because families and individuals customarily think of income in money terms, we relate our following discussion of effective rates of taxation (burden), expenditure (benefit), and net fiscal incidence to the money-income classification of Ontario residents. It should nevertheless be clearly understood that an "effective" rate for any money-income class is the rate that prevails in relation to the adjusted broad income of the money-income class.

TABLE 5:5

DERIVATION AND DISTRIBUTION OF ADJUSTED BROAD INCOME, 1961

(millions of dollars)

	Family Money Income Class							
	Under $2,000	*$2,000-2,999*	*$3,000-3,999*	*$4,000-4,999*	*$5,000-6,999*	*$7,000-9,999*	*$10,000 and over*	*Total*
Money Income:								
Wages and salaries (including military pay and allowances)	107.0	296.3	587.3	1,179.3	2,513.3	2,056.1	1,063.7	7,803.0
Farm	5.2	47.7	49.5	42.8	58.2	38.7	48.9	291.0
Investment	75.7	109.5	52.5	36.5	93.5	178.8	343.5	890.0
Non-farm unincorporated income	19.8	51.8	78.2	85.6	151.4	149.0	287.2	823.0
Private pensions	.9	2.5	4.8	9.4	21.1	17.3	9.0	65.0
Transfer payments	206.1	118.5	79.1	100.0	162.1	112.2	42.0	820.0
	414.7	626.3	851.4	1,453.6	2,999.6	2,552.1	1,794.3	10,692.0
Imputed Income Adjustments	46.6	33.4	42.8	65.1	139.8	116.0	89.3	533.0
(Rent, interest, food and fuel produced and consumed on farm, investment income of life assurance companies)								
Personal Income (money income and imputed income)	461.3	659.7	894.2	1,518.7	3,139.4	2,668.1	1,883.6	11,225.0
Other Adjustments:								
Retained earnings	7.3	11.3	11.0	11.8	20.0	24.9	148.7	235.0
Unshifted corporate income tax	7.4	11.5	11.3	12.0	20.3	25.3	151.2	239.0
Social insurance contributions borne by workers	6.2	15.0	29.1	49.4	50.6	30.0	15.7	196.0
Property tax and natural-resource revenues borne by stockholders	2.9	4.5	4.4	4.6	8.0	10.0	59.6	94.0
Miscellaneous	1.6	2.4	2.8	3.6	6.7	7.1	27.1	51.3
(Government interest and transfer payments)*	(235.1)	(138.2)	(97.4)	(125.8)	(221.8)	(169.0)	(123.7)	(1,111.0)
(Tax and other payments to government)†	(157.4)	(167.5)	(281.1)	(477.8)	(990.5)	(811.4)	(849.8)	(3,735.5)
Cost of governmental benefits enjoyed‡	462.3	370.8	409.8	615.2	1,053.0	733.6	590.7	4,235.4
Adjusted Broad Income	556.5	769.5	984.1	1,611.7	3,085.7	2,518.6	1,903.1	11,429.2

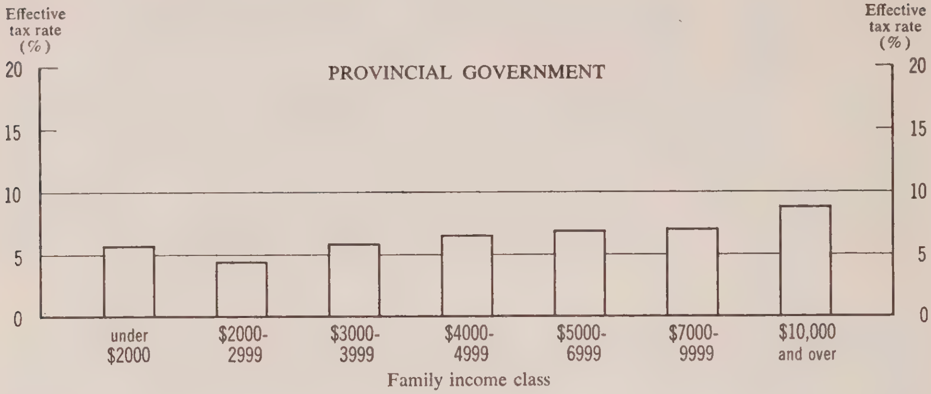
Sources: These estimates are based on data provided by the Dominion Bureau of Statistics and the Department of National Revenue.

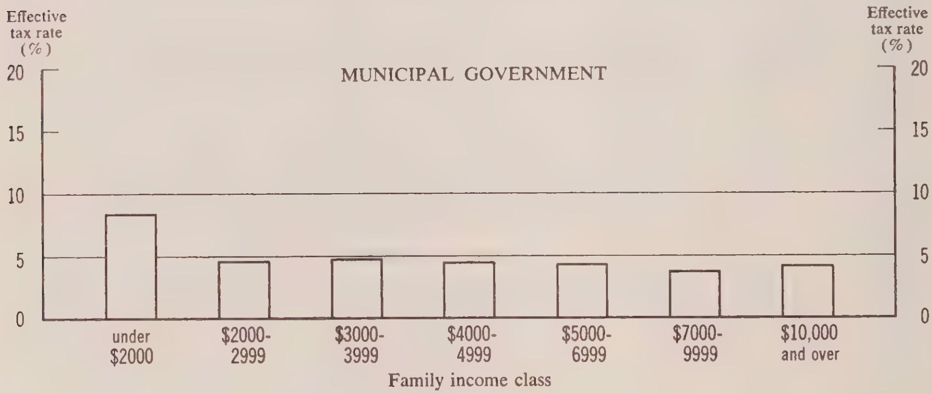
*This subtraction is required to eliminate double counting.

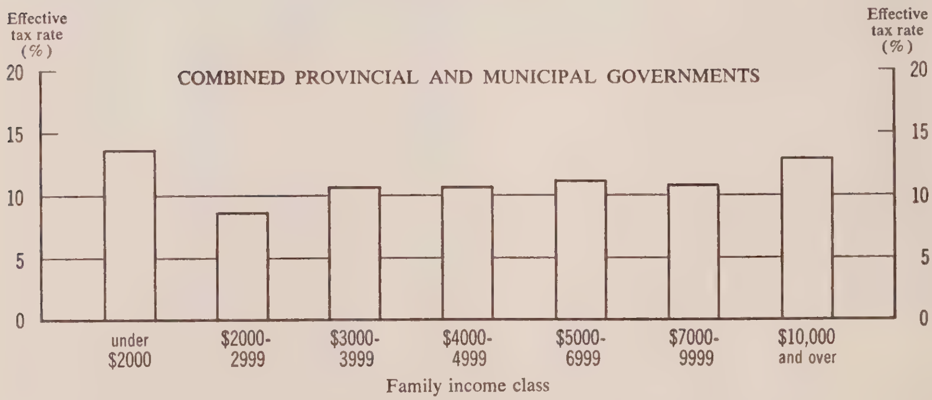
†See grand totals, Table 5:2.

‡See grand totals, Table 5:4.

Chart 5:1
Effective tax (burden) rates of provincial and municipal governments in Ontario, 1961







Source: Table 5:6

These rates are based on the allocation both of tax revenues and of "other" revenues. See Table 5:6.

TABLE 5:6

EFFECTIVE REVENUE RATES FOR SELECTED GOVERNMENTS IN CANADA, 1961
(percentage of adjusted broad income)

	Family Money Income Class						
	Under $2,000	*$2,000-2,999*	*$3,000-3,999*	*$4,000-4,999*	*$5,000-6,999*	*$7,000-9,999*	*$10,000 and over*
Provincial Revenues (Ontario)							
Personal income tax	0.1	0.1	0.5	0.7	1.2	1.3	1.8
Corporation income tax	0.5	0.4	0.4	0.4	0.4	0.4	1.0
General sales tax	0.9	0.9	1.2	1.1	1.2	1.3	0.9
Highway-user revenues	0.5	0.7	1.1	1.4	1.5	1.5	1.1
Excise taxes	0.6	0.3	0.7	0.8	0.8	0.9	0.5
Succession duties							2.1
Natural-resource revenue	0.2	0.1	0.1	0.1	0.1	0.1	0.3
Social insurance contributions	0.3	0.4	0.6	0.6	0.7	0.7	0.5
Hospital premiums	2.1	1.1	1.0	0.9	0.8	0.6	0.3
Other taxes and misc. revenue	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Total	5.6	4.3	5.9	6.3	7.0	7.1	8.8
Municipal Revenues (Ontario)							
Property tax	7.0	3.9	4.1	3.8	3.6	3.2	3.4
Business tax	0.3	0.2	0.3	0.2	0.2	0.2	0.4
Miscellaneous revenue	0.7	0.4	0.4	0.4	0.4	0.3	0.3
Total	8.0	4.5	4.8	4.4	4.2	3.7	4.1
Total Ontario Provincial and Municipal Revenue	13.6	8.8	10.7	10.7	11.2	10.8	12.9
Provincial and Municipal Revenue (Other than Ontario)	2.5	2.0	2.1	1.9	1.9	2.0	4.7
Total Provincial and Municipal Revenue (All Canada)	16.1	10.8	12.8	12.6	13.1	12.8	17.6
Federal Revenues							
Personal income tax	0.8	1.0	3.4	4.8	8.1	9.3	12.6
Corporation income tax	3.1	2.6	2.7	2.3	2.3	2.5	7.3
General sales tax	2.8	2.4	3.1	3.3	3.4	3.3	2.4
Other excises	1.7	1.3	1.8	1.8	1.9	1.6	0.9
Estate tax							1.8
Social insurance contributions	1.3	1.9	2.8	2.8	1.3	0.8	0.6
Import duties	2.0	1.4	1.7	1.7	1.7	1.6	1.1
Miscellaneous revenue	0.5	0.4	0.3	0.3	0.3	0.3	0.4
Total	12.2	11.0	15.8	17.0	19.0	19.4	27.1
Total Government Revenues	28.3	21.8	28.6	29.6	32.1	32.2	44.7

Source: J. A. Johnson, *Incidence of Government Revenues and Expenditures.*

described as progressive. Conversely, should effective tax rates fall, or benefit rates rise, in moving from a lower to a higher income class, the pattern will be described as regressive, since such patterns imply increased inequality of income distribution. In addition to indicating the effective tax rates on Ontario residents for *each* source of revenue at each of the three levels of government and for all three levels combined, Table 5:6 presents the effective rates on Ontario residents for *all* provincial and municipal sources combined, for all federal sources, and for all sources for all levels of government combined.

31. An examination of the effective combined provincial tax rate reveals that, apart from a regressive fall between the two lowest income classes, the structure is mildly progressive. This is in contrast to the municipal rate structure,

the burden pattern of which is decidedly regressive, with the effective rates falling from 8.0 per cent in the lowest income class to 4.1 per cent in the highest class. This regressiveness is largely explained by the very high proportion of income that low-income families are forced to spend upon accommodation, an expenditure that is heavily burdened by the real property tax. Chart 5:1 reveals that when the provincial and municipal burdens are combined, a somewhat U-shaped distribution emerges, with high rates for the lowest and highest income classes, and more modest rates for the intervening classes. This particular configuration of rates is largely attributable to the regressiveness of the property tax at low-income levels and to the progressiveness of the corporate and personal income taxes at high-income levels. The addition of the revenue burdens imported into Ontario from other provincial and municipal tax jurisdictions does not alter the basic nature of this U-shaped pattern, merely raising its level in each income class. This increase is most significant for the highest income class, where stock ownership by Ontario residents causes substantial importation of business taxes, the total effective rate being raised from 12.9 to 17.6 per cent.

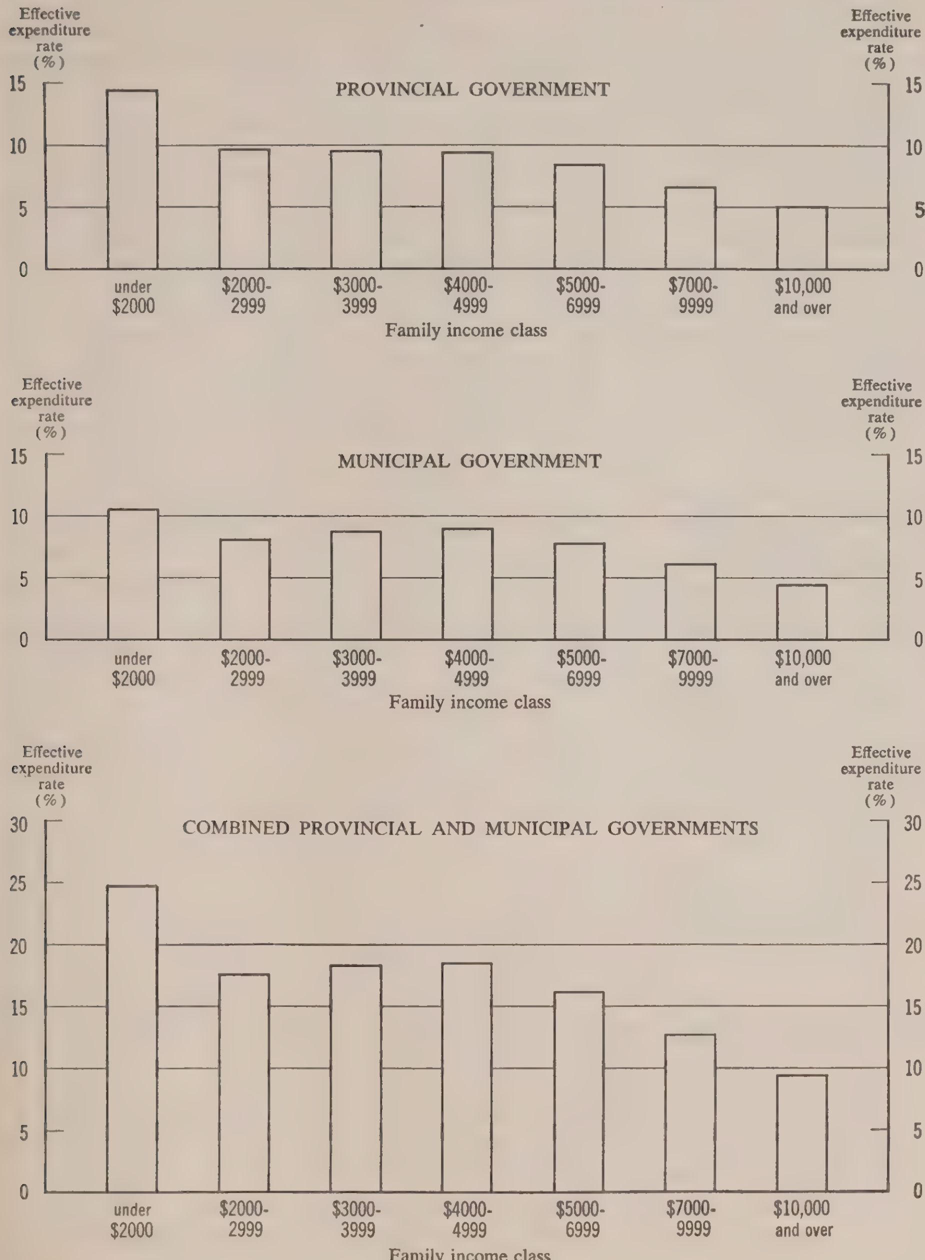
32. Given the federal government's heavy reliance upon corporate and personal income taxation, it is not surprising that its combined effective rate pattern is more progressive than those of the other two levels of government. Various federal taxes levied on consumption nevertheless give rise to some regression between the two lowest income classes, the effective rate being 12.2 per cent in the lowest income class and 11.0 per cent in the next. This regressiveness results from people in the lowest income class spending proportionately more of their incomes on goods subject to consumption taxes. It is aggravated by a greater tendency on the part of these families to spend in excess of their incomes compared to people in higher income classes. From the low point of 11.0 per cent, the effective rate continuously rises for successive income classes and reaches 27.1 per cent for those with money incomes in excess of $10,000.

33. When all three levels of government are combined, including the taxes paid by Ontario residents to other provincial and municipal governments, the rate pattern that emerges is progressive for all but the lowest income ranges. The substantial reduction of the overall effective rate between the lowest and second-lowest income classes (from 28.3 per cent to 21.8 per cent) is not necessarily evidence of an inappropriate tax structure. Viewed in isolation, both the level and pattern of these rates appear to be unsatisfactory, but when taken in conjunction with the expenditure benefits conferred upon the members of these income classes, the net effect of government fiscal activities appears in quite a different light. It is therefore necessary to defer judgment until the pattern of benefit rates has been examined and combined with the tax rate pattern.

EFFECTIVE BENEFIT RATES

34. Just as the over-all pattern of effective tax rates is with few exceptions progressive, so too is that of effective benefit rates. A comparison of the effective benefit rates of each of the three levels of government, as shown in Table 5:7, reveals an even greater degree of similarity than that found in the effective tax

CHART 5:2
Effective expenditure (benefit) rates of provincial and municipal governments in Ontario, 1961



Source: Table 5:7

TABLE 5:7

EFFECTIVE EXPENDITURE RATES FOR SELECTED GOVERNMENTS IN CANADA, 1961
(percentage of adjusted broad income)

	Family Money Income Class						
	Under $2,000	*$2,000-2,999*	*$3,000-3,999*	*$4,000-4,999*	*$5,000-6,999*	*$7,000-9,999*	*$10,000 and over*
Provincial Expenditures (Ontario)							
Highways, roads and bridges	1.2	1.2	1.5	1.6	1.8	1.6	1.2
Education	1.7	2.2	2.9	3.3	2.7	2.0	1.5
Health and sanitation	4.0	2.5	2.6	2.5	2.2	1.6	0.8
Interest	0.3	0.1	0.1	0.1	0.1	0.1	0.2
Social welfare	4.6	2.4	1.2	0.9	0.7	0.7	0.4
Agriculture	0.7	0.2	0.1	0.1	—	—	—
General expenditures	1.9	1.2	1.2	1.1	1.0	0.9	1.0
Total	14.4	9.8	9.6	9.6	8.5	6.9	5.1
Municipal Expenditures (Ontario)							
Highways, roads and bridges	0.8	0.7	0.8	0.9	0.9	0.8	0.7
Education	2.1	2.9	4.1	4.6	3.6	2.5	1.1
Health and sanitation	2.6	1.4	1.3	1.1	1.0	0.8	0.4
Interest	0.2	0.1	0.1	0.1	0.1	0.1	0.2
Social welfare	1.0	0.6	0.3	0.2	0.2	0.2	0.1
General expenditures	3.8	2.3	2.2	2.1	1.9	1.7	1.9
Total	10.5	8.0	8.8	9.0	7.7	6.1	4.4
Total Ontario Provincial and Municipal Expenditures	24.9	17.8	18.4	18.6	16.2	13.0	9.5
Provincial and Municipal Expenditures (Other than Ontario)	1.0	0.8	0.8	0.7	0.7	0.8	2.5
Total Provincial and Municipal Expenditures (All Canada)	25.9	18.6	19.2	19.3	16.9	13.8	12.0
Federal Expenditures							
Highways, roads and bridges	0.3	0.2	0.3	0.3	0.3	0.3	0.2
Other transportation	1.0	0.7	0.9	0.7	0.7	0.7	0.5
Education	0.2	0.3	0.3	0.4	0.3	0.3	0.4
Health and sanitation	2.2	1.4	1.4	1.4	1.2	0.8	0.4
Interest	4.5	2.2	1.5	1.3	1.6	1.8	3.6
Social welfare	33.8	13.5	7.5	6.0	5.2	4.3	2.2
Agriculture	1.5	2.6	2.0	1.0	0.7	0.6	0.9
General expenditures	13.7	8.7	8.5	7.8	7.2	6.5	10.9
Total	57.2	29.6	22.4	18.9	17.2	15.3	19.1
Total Government Expenditures	83.1	48.2	41.6	38.2	34.1	29.1	31.1

Source: J. A. Johnson, *Incidence of Government Revenues and Expenditures.*

rates. For each level of government the basic pattern is progressive, with benefit rates falling as income increases. Only in two instances does some regression occur, one in the federal and one in the municipal structure.

35. As Table 5:7 indicates, for all three levels of government combined, and including benefits enjoyed by Ontario residents but provided by other provincial and municipal governments, the progression in benefits is quite pronounced, the effective rate falling from 83.1 per cent in the lowest income class to 31.1 per cent in the highest. Regression is encountered only as between the highest income classes. If federal general governmental expenditures were omitted, even this regression would be eliminated, because it is mainly attributable to having allocated one-quarter of federal general expenditures in proportion to dividend income.

36. The provincial pattern of benefit rates is progressive over all income classes, the actual rates varying between 14.4 per cent in the lowest income class and 5.1 per cent in the highest. The total municipal pattern is somewhat less regular, with some regression being encountered in the middle income classes. Here the main explanation is found in the pattern of education benefits, these in turn being determined by the incidence of age distribution of children among the various classes. These effective benefit rates for the provincial and municipal governments in Ontario are presented pictorially in Chart 5:2.

37. An examination of individual categories of expenditure reveals that social welfare expenditures are the most important source of progression in benefit rates. This is especially true at the federal level, where these expenditures account for 33.8 per cent of the adjusted broad income of the lowest income classes but only 2.2 per cent of those with money incomes of $10,000 or more. For the provincial and municipal levels of government, the benefit rates from welfare expenditure are lower but the relative differences between the highest and lowest income classes are comparable. Another source of progression in benefit rates, especially at provincial and municipal levels, is expenditure on health and sanitation.

THE CONCEPT OF NET FISCAL INCIDENCE

38. While it is very useful to determine effective tax and benefit rates for each income class of Ontario residents, we have already warned that the appraisal of these rates requires an examination of their net impact. For this purpose, we have constructed a rate of net fiscal incidence for each income class, this being obtained by subtracting the effective tax rate of the class from the effective benefit rate. Where the benefit rate exceeds the tax rate, the resulting rate of net fiscal incidence is positive and government, on balance, is causing a redistribution of income in favour of the members of those income classes enjoying positive rates. On the other hand, where taxes exceed benefits, the rate of net fiscal incidence is negative, the fiscal process redistributing income away from the members of those income classes subject to negative rates.

39. If rates of net fiscal incidence are positive but decrease with income and possibly become negative at higher income levels, the *pattern* of rates is described as progressive. Similarly, where rates are negative and fall to even larger negative values as income rises, the pattern is described as progressive. Conversely, patterns involving positive net rates that increase with income, or negative net rates that assume smaller negative values, or even become positive as income increases, are described as regressive. It is consistent with our earlier usage that the terms "progressive" and "regressive" describe rates of net fiscal incidence that respectively decrease and increase the inequality of income distribution.

40. Before we present and analyse our findings concerning the rates of net fiscal incidence among Ontario residents, we wish to review several of their limitations. First and possibly most important, the amount of redistribution indicated by the net rates is not a comprehensive measure of the redistributive impact of all government policies. In arriving at these rates, no allowance whatever

is made for the redistribution undoubtedly occasioned by monetary policy, tariff policy, combines policy, minimum wage legislation and a myriad of other governmental activities. A second limitation is that with respect to the revenue and expenditure programs that we have explicitly examined in our study, it is only the actual monetary receipts and outlays that have been taken into consideration. Changes in the level and distribution of income caused by the adjustments to these programs have been ignored. While it would be highly desirable to allow for the distributive effects of all of these factors, the present state of economic theory and empirical research simply does not permit this to be done. It should also be kept in mind that our results have been obtained only with the aid of a formidable array of assumptions which are listed as an Appendix to this chapter. While we hope that we have in each circumstance chosen the most reasonable assumptions, errors of judgment can by no means be ruled out. Our results must therefore be used with caution.

41. In interpreting the rates of net fiscal incidence on Ontario residents, the reader should keep in mind that the total expenditure benefits imputed to the residents of the province exceed the tax burdens imputed to them. In consequence, the general level of rates of net fiscal incidence is higher than it would have been if benefits had been precisely matched by taxes, and more income classes appear to be the beneficiaries of fiscal redistribution than would have if benefits and burdens had been equal. The discrepancy between total benefits and total burdens is thus significant in interpreting net fiscal incidence and it warrants some explanatory comment.

42. In large part, the excess of benefits over burdens is attributable to the deficit financing practised by the three levels of government in 1961. The deficits incurred by these governments permitted them to provide expenditure benefits which exceeded their revenues and Ontario residents were among the beneficiaries of these excesses. It has been estimated that the net benefits gained by the residents of Ontario from the federal, Ontario provincial, and Ontario municipal governments were \$183.6 million, \$151.3 million, and \$325.6 million respectively. These amounts reflected, in addition to the effects of the budgetary deficits, the particular nature of the tax and expenditure programs provided by the governments.

43. The combined effect of these factors caused the benefits enjoyed by Ontario residents to exceed their tax and other burdens by \$660.5 million (\$183.6 million + \$151.3 million + \$325.6 million). On the other hand, the burdens exported by other provincial and municipal jurisdictions to Ontario residents exceeded by \$160.6 million the benefits those governments exported to Ontario residents. In consequence, the net excess of benefits over burdens, for Ontario residents, was \$499.9 million (\$660.5 million—\$160.6 million). This is the measure of the net excess implicit in the pattern of net fiscal incidence among our family income classes, which causes the rates of this incidence to be somewhat higher than they would have been had total benefits and total burdens been equal.

44. Although we have derived the net tax burdens exported from other provincial and municipal jurisdictions to Ontario residents, we have made no

TABLE 5:8

"NET FISCAL INCIDENCE" OF THE REVENUE AND EXPENDITURE PROGRAMS OF SELECTED GOVERNMENTS IN CANADA, 1961

(percentage of adjusted broad income)

	Family Money Income Class						
	Under $2,000	*$2,000-2,999*	*$3,000-3,999*	*$4,000-4,999*	*$5,000-6,999*	*$7,000-9,999*	*$10,000 and over*
Provincial (Ontario)	8.8	5.5	3.7	3.3	1.5	−.2	−3.7
Municipal (Ontario)	2.5	3.5	4.0	4.6	3.5	2.4	.3
Provincial and Municipal (Ontario)	11.3	9.0	7.7	7.9	5.0	2.2	−3.4
Federal	45.0	18.6	6.6	1.9	−1.8	−4.1	−8.0
Provincial and Municipal (Other than in Ontario)	−1.5	−1.2	−1.3	−1.2	−1.2	−1.2	−2.2
Total	54.8	26.4	13.0	8.6	2.0	−3.1	−13.6

Source: J. A. Johnson, *Incidence of Government Revenues and Expenditures.*

estimate of either the burdens or the benefits exported from Ontario to the residents of these jurisdictions. In consequence, it cannot be concluded that Ontario is necessarily a net contributor in its fiscal relations with the other provinces and their municipalities. Since this study is concerned with the net fiscal incidence for Ontario residents, these burdens and benefits exported *from* Ontario have not entered into our calculations.

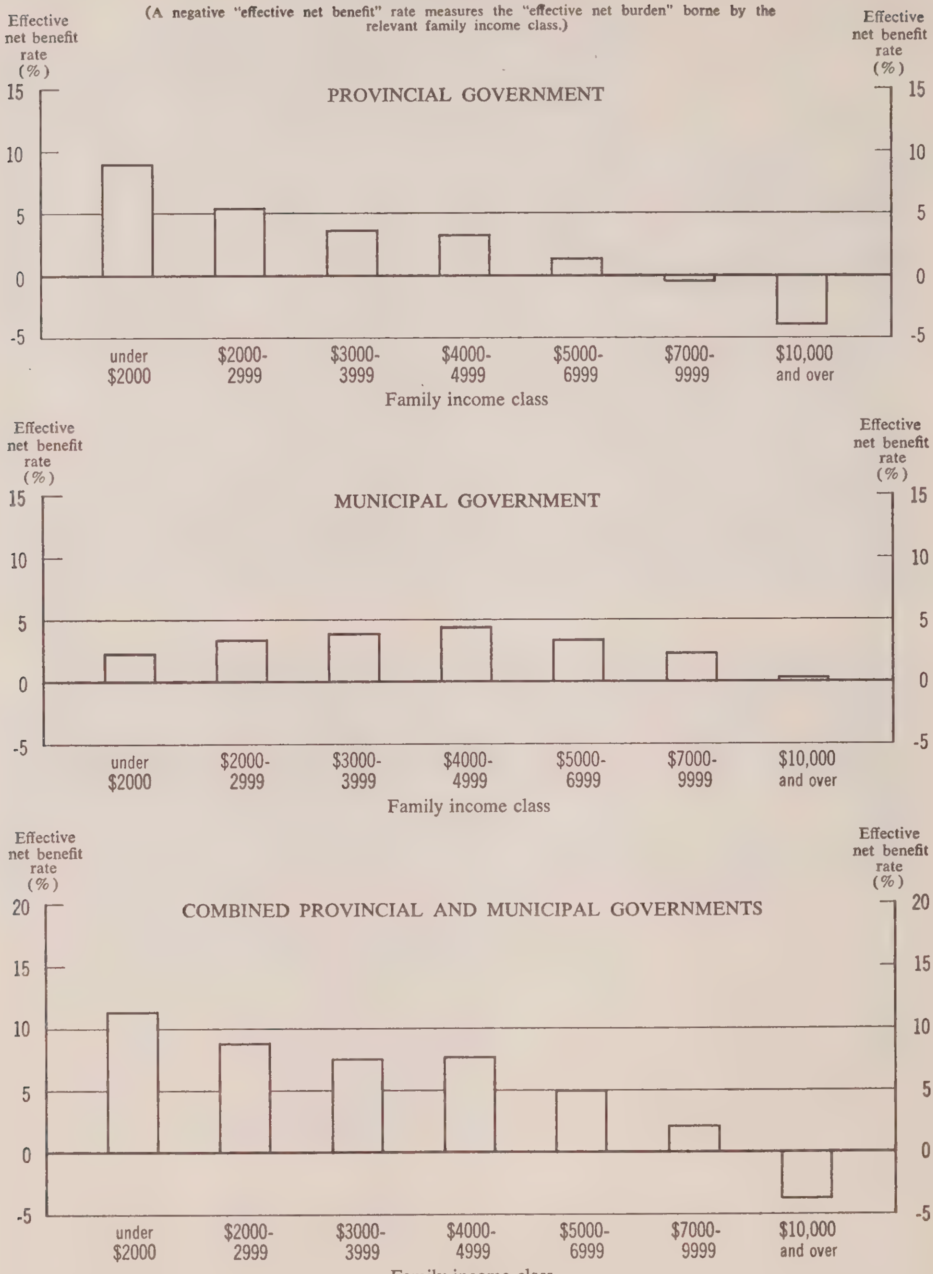
THE PATTERN OF NET FISCAL INCIDENCE AMONG ONTARIO RESIDENTS

45. Looking first at the pattern of net fiscal incidence for all levels of government combined, it is immediately apparent that the effective rate structure is strongly progressive, the actual rates falling from a level of 54.8 per cent in the lowest income class to —13.6 per cent in the highest income class. Because a positive rate of net fiscal incidence indicates a net gain from budgetary redistribution, and a negative rate indicates a loss, it is evident that government as a whole occasions a substantial redistribution of income within Ontario. Although Table 5:8 does not indicate the precise income level at which the rate of net fiscal incidence becomes zero, it appears that typical families or unattached individuals with money incomes not exceeding $7,000 per annum are net beneficiaries of budgetary redistribution. Those with annual money incomes in excess of this watershed level are net contributors. The lack of a more detailed classification of data compelled us to make use of an open-ended "$10,000 and over" class at the upper end of the money-income scale. Had it been possible to subdivide this class, the progressiveness of the net fiscal incidence would have been even more forcefully demonstrated.

46. An examination of the rates of net fiscal incidence for the several levels of government in Canada reveals that the federal government is the primary source of progression in the composite picture. It will be recalled from our examination of effective tax and benefit rates that this government relies heavily on income taxation and that social welfare programs figure prominently among its expenditures.

Chart 5:3
Net fiscal incidence rates, 1961

(A negative "effective net benefit" rate measures the "effective net burden" borne by the relevant family income class.)



Source: Table 5:8

The substantial progression of the federal net incidence rates (which fall from 45.0 per cent to —8.0 per cent in moving from the lowest to the highest money-income class) is thus hardly surprising. A further, more modest contribution to progression is made by the Ontario provincial revenue and expenditure programs, their net incidence ranging from 8.8 per cent at the lowest end of the income scale to —3.7 per cent at the upper end. It is only the municipal net rates that display regression, and these rise regressively over the income range spanned by the four lowest income classes. Thereafter, municipal net incidence rates fall but they maintain positive values for all income classes.[7] Apart from a slight, regressive inversion between the third and fourth money income classes, the combined Ontario provincial-municipal pattern of net rates is progressive, the actual rates ranging from 11.3 per cent in the lowest money-income class to —3.4 per cent in the highest. These patterns of provincial and municipal net fiscal incidence in Ontario are pictured in Chart 5:3. A similar pattern is maintained at a lower absolute level when the combined Ontario provincial-municipal net rates are adjusted to reflect the importation of benefits and burdens from other provincial and municipal jurisdictions.

GENERAL CONCLUSIONS

47. Although our study has indicated a regressive structure of effective tax rates in the lower income classes of Ontario, with rates that will be regarded by many as surprisingly high, the picture changes markedly for these groups when the distribution of the benefits from government expenditures is considered. Here we have found that the expenditure structure heavily favours low income recipients and the pattern of net expenditure rates more than offsets the regressiveness of the net tax rates. As a consequence, substantial net benefits are conveyed, on balance, to those Ontario families and unattached individuals who are in receipt of relatively low annual incomes.

48. It is interesting to speculate on the implications of changes in the relative size of the financial operations of the different levels of government in the light of our net fiscal incidence findings. Because the tax and expenditure programs of the federal government are at present the primary source of progressiveness in the total Canadian fiscal system, any reduction in the relative importance of the federal government's fiscal operations will, if a diminution of progression is to be avoided, need to be accompanied by an increased reliance upon progressive tax sources and expenditure programs by the other levels of government. In this connection, the continuing use of the personal income tax abatement technique, as a means of transferring tax capacity from the federal to the provincial governments in Canada, has in fact lessened the progressiveness of the federal tax system and increased that of the provinces. Given the present narrow and regressive municipal tax base, it is

[7]In order to avoid double counting, unconditional intergovernmental grants are shown as expenditures only of the recipient governments. Since there is no offsetting tax burden at the recipient level (the funds having been raised by the grantor), the receipt of these grants is similar in effect to a budgetary deficit, both tending to raise the rates of net fiscal incidence. For municipalities, grants and deficits are sufficiently large to cause the net incidence rates to be positive in all income classes.

very difficult for the municipalities to promote or achieve progression. It is therefore highly probable that as provincial revenue and expenditure requirements continue to grow more rapidly than those of the federal government, the primary burden of maintaining the progressiveness of the Canadian fiscal system will fall upon the government of Ontario and those of the other provinces.

49. We begin this chapter by expressing the view that a reliable knowledge of the net incidence of the revenue and expenditure patterns of the several levels of government in Canada is an indispensable prerequisite to the attainment of greater fiscal equity, as among various income groups. The rapidly changing patterns of government revenue and expenditure within this country therefore necessitate a program of continuous research if relevant and timely information relating to fiscal incidence is to be available in the formulation of the most appropriate tax and expenditure policies. We, therefore, strongly urge the Ontario government to institute such a program.

Appendix to Chapter 5

ASSUMPTIONS REGARDING THE SHIFTING AND INCIDENCE OF MAJOR REVENUE SOURCES[1]

The shifting and incidence assumptions that have been used in allocating tax burdens to the various economic groups are as follows:

(1) Personal income tax: This tax is assumed to be borne by those upon whom it is levied; i.e., it is assumed that there is no shifting.

(2) Corporate income tax: It is assumed that one-half of the burden falls upon capital, and so on stockholders, and that the remaining half is shifted forward to consumers in the form of higher prices for the output of the corporate sector.

(3) Commodity taxes: This category includes federal and provincial sales taxes and the various specific excise taxes. For each, the assumption is that the taxes are fully shifted forward, falling upon the various users of the taxed items in proportion to their expenditures upon them.

(4) Selective excise taxes: This group includes, at the provincial level, the hospitals tax, race tracks tax, revenues from the sale of liquor licences and profits from the governmental sale of liquor. While these last two sources of revenue are not taxes, they may be treated analogously to excise taxes because they strike specific types of products and are used in lieu of excises on these products. The federal revenue sources included in this class are the excise taxes on liquor, tobacco, automobiles,[2] and other miscellaneous commodities. It is assumed that all these levies are fully shifted forward, to be borne by consumers in proportion to their expenditures upon the taxed items.

(5) Import duties: As with other commodity taxes, these are assumed to be shifted forward to consumers, in the form of higher prices.

(6) Highway-user revenues: Included in this category are the provincial gasoline and other motor vehicle fuel taxes, and motor vehicle registration fees. It is assumed that taxes and fees paid by commercial vehicle operators should be treated as costs of production and therefore passed on to consumers in proportion to their expenditures. Private passenger vehicle owners are assumed to bear the fuel taxes and fees incurred in respect of these vehicles. The burden of the fuel taxes is allocated in proportion to the costs of operating automobiles, and that of the fees in proportion to purchases of automobiles.

(7) Succession duties: It is recognized that a very small part of the burden of succession duties will be borne by non-residents. Our studies suggest that this proportion is of the order of 3 to 4 per cent of the duties, and

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[1]The reasons underlying the selection of these particular assumptions are set forth in Johnson, *Incidence of Government Revenues and Expenditures, passim.*

[2]This levy was repealed, effective June 21, 1961.

we have made such an assumption in allocating their burden. We have further assumed that the burden borne domestically falls on families in the $10,000 and over income bracket. While not strictly precise, this assumption is unlikely to introduce any serious error into our results.

(8) Property taxes: Here the basic assumption is that the portion of the property tax levied on the value of land is not shifted while, with the exception of owner-occupied housing, the portion on improvements is assumed to be shifted forward in the form of higher rentals or prices (these being occasioned by the higher costs of production, the tax being viewed as a cost). The burden on owner-occupied housing is assumed to remain on the owner.

(9) Municipal business tax: This tax is treated in the same manner as the property tax on business. It is divided between land and improvements, with the portion on land being borne by the owners, and the portion on improvements borne by consumers.

(10) Natural-resources revenue: The revenue sources included in this category are mining and logging taxes, stumpage fees, and hunting and fishing licences. Some of these levies are treated in a manner similar to taxes on profits, others are held to enter costs of production, while the remainder are assumed to be borne by sportsmen.

(11) Social insurance contributions: It is assumed that the portion of these mandatory contributions paid by employees is borne by them. Regarding the portion paid by employers, a distinction is made between government and other employers. Government pays its contributions from general revenue and thus they are already included in the burdens of other taxes. Of the contributions paid by non-government employers, half are assumed to be shifted forward to consumers in the form of higher prices, the other half being shifted backward to employees in the form of lower wages than would otherwise prevail.

(12) Other taxes and revenues: This miscellaneous category includes all of the remaining revenues collected by the various levels of government; excluded, however, are some of the income of Crown corporations and post office receipts. Since the element of compulsion is typically absent from these items and payments tend to be for benefits directly rendered, only deficits or surpluses are included in the analysis. Deficits are treated as equivalent to expenditures, and surpluses to taxes. For the other items, the allocating assumptions are as follows:

(a) Provincial hospital premiums are assumed to be borne by the families paying them.

(b) Provincial taxes on insurance premiums are allocated to families in proportion to their expenditures on insurance.

(c) The fire marshal's tax and land transfer taxes are assumed to be borne in proportion to the property tax burden.

(d) Security transfer taxes are allocated in proportion to dividend income.

(e) The miscellaneous federal revenue items are dealt with in a manner comparable to similar provincial items.

ASSUMPTIONS REGARDING THE ALLOCATION OF BENEFITS FROM MAJOR EXPENDITURE PROGRAMS[3]

The costs of the expenditure programs included in the study were allocated to the various economic groups and income classes with the aid of the following assumptions:

(1) Highway, road, street, and bridge expenditures: It was assumed that these expenditures benefit both the direct users who own passenger or commercial vehicles, and non-users who gain by the provision of access to their property. The division of the benefits between these two classes of beneficiaries was accomplished by the "earnings credit method", while an "incremental cost" approach was used to make the allocation between passenger and commercial vehicle owners.[4] Of the benefits assigned property owners and owners of commercial vehicles, 25 per cent of the former and all of the latter were assumed to be passed on to consumers, in the form of lower prices.

(2) Other transportation expenditures: Unfortunately, there is no empirical evidence to indicate how federal expenditures on air, water, and rail transportation should be allocated among income classes. It has therefore been necessary to assume arbitrarily that one-half of these expenditures should be assigned to firms, and one-half to families. Again, it is assumed that the half attributed to firms is shifted forward to consumers; it is thus allocated, along with the half assigned directly to families, in proportion to expenditures.

(3) Educational expenditures: While it is recognized that the benefits of education accrue widely to the entire community, it has been necessary in the study to allocate all educational expenditures to those persons being formally educated in 1961. Indirect benefits to others are thus ignored. The actual allocation was based on the number of children in each income class who were attending educational institutions.

(4) Health and sanitation: The major expenditure items of this type were allocated to the different income classes either on a per-capita basis or in proportion to the number of families in each class. Where business was considered to be a direct beneficiary, it was assumed that the benefits to business were passed on to consumers, by means of lower prices.

(5) Interest payments: Where possible, these were assigned to debt holders in proportion to their debt holdings. Interest paid to business firms was

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[3]The reasons underlying the selection of these particular assumptions are set forth in Johnson, *Incidence of Government Revenues and Expenditures, passim.*

[4]For details of these allocative devices, see Johnson, *op. cit.*

assumed to benefit the owners of the firms, while interest paid to insurance companies was assumed to be shifted forward to purchasers of insurance. Interest paid to government was excluded from the analysis.

(6) Agricultural expenditures: Where these expenditures were for purposes of general administration and research, it was assumed they were of equal benefit to all farm families. On the other hand, those expenditures associated with marketing and production services, price support programs, etc., were assumed to benefit farm families in proportion to their income.

(7) Social welfare and expenditures on veterans: It was assumed that these and other transfer payments were not shifted from their initial recipients.

(8) General government expenditures: The treatment of these was outlined in the body of the chapter, in paragraph 24. The effect of the methods we have employed in allocating the benefits of general government expenditures is that one-quarter of this total benefit is distributed equally among individuals, a second quarter is distributed equally among families, a third quarter is distributed among families in proportion to their incomes, and the remaining quarter is distributed among families in proportion to family investment income.

Chapter 6

A Projection of the Expenditure, Revenue and Debt of Ontario Governments, 1966-75

INTRODUCTION

1. By our terms of reference, we were instructed to examine the revenue systems of the Province of Ontario and of its municipalities, with regard to both present and prospective financial requirements. In response to this latter charge, we have developed projections of the budgetary and debt position of the municipalities and school boards of Ontario to the end of 1974 and of the Province to March 31, 1975. The results are presented and explained in this chapter. We shall first project the revenues and expenditures of the municipalities and school boards for each year of the period, on the basis of appropriate assumptions which are discussed below. The projected excess of expenditure over revenue indicates the annual local deficit which, when added to the debt at the beginning of any period, yields the total projected debt at the end of that year. We shall subsequently adopt a similar approach with respect to the projection of the revenue, expenditure and accumulated debt of the Province. Finally, we shall present a total of the two projections, in order to show a comprehensive picture for the Province and its subordinate governments.

BASIC ASSUMPTIONS OF THE PROJECTION

2. Because the computation of these projections has involved a large and complex exercise, it is necessary at the outset to make explicit the assumptions on which they are based and the limitations that apply to them.[1] With respect to revenues, we assume that, with two exceptions, taxes will continue to be collected at rates prescribed in existing legislation. The first exception is the municipal real property and business taxes where, for reasons explained in a later section of this chapter, we have allowed for variations in the rate of tax as well as for growth of the tax base. The second exception, inasmuch as it may be classified as a tax, involves the premiums paid by individuals to the Ontario Hospital Services Commission. We have assumed that these premiums will be increased from time to time in order that the part of the cost met by the Province will not be out of line with the one-third proportion which the Provincial Treasurer indicated as being appropriate, in his 1964 Budget Speech.

3. We have endeavoured to apply the same general principle in our projection of expenditures, where we have assumed that no major changes in existing government policies will be introduced. The difficulties involved in projecting government spending are nevertheless substantial, partly because there are a great many expenditure programs whereas a large proportion of total revenue is derived from a very few sources. In an attempt to establish an orderly classification of the multiple categories of government spending we have distinguished between current account and capital account spending for each level of government. We have further divided each capital and current expenditure by function, namely education, roads or public works, health and all other.

4. In each individual area of expenditure, our method of making the projection has been adapted to the particular circumstances, but our usual procedure has been (1) to consider the level of spending on a per-capita basis at base period (1963) prices and (2) to assume that the trend of the past few years would continue except where there was definite reason to expect a change. Having thus projected the particular series in per-capita terms and at constant prices, we have then modified our figures to take into account three additional factors: changes in total population or in its relevant component, changes in the price level, and an "improvement factor". If, for example, the general level of prices rises, government expenditure will increase on that account. Likewise, if the size or composition of population to be served changes, the total cost of providing a given government program will usually be directly affected. Finally, we provide for an "improvement factor" in the quality of government services, because we expect that the average standard of living of Ontario citizens will continue to rise, reflecting rising standards of private consumption. As private consumption rises, the level of government services will be expected to show an accompanying increase.

[1]The reader who is interested in examining in greater detail the projections set forth in this chapter is referred to the Appendix following this chapter.

We have therefore assumed, where relevant, that the appropriate improvement factor to apply to government spending is equal to the projected rate of increase in productivity within the provincial economy.

5. In projecting the recent trend of any given category of expenditure (after having removed the statistical effect of any recent major change in such a spending program), we have in fact implicitly assumed that the rate of change in recent expenditure, which will necessarily reflect any minor modifications and extensions of government spending programs introduced during the past few years, will continue in the future. Our projection, in short, provides for the past measure of flexibility, in adapting existing programs to changing conditions. We explicitly exclude from our projection any provision for the introduction of major new expenditures. We confidently expect that there will in fact be major new expenditure programs introduced in the coming decade, but we are in no position to predict what these will be or what they will cost. Our purpose here is simply to project from the existing situation, rather than to forecast possible new developments in the range and scope of government activity.

6. To distinguish between a projection and a forecast is also relevant in a somewhat different sense. Our projection makes no attempt to take into account any short-term deviations from trend, which inevitably occur in individual years. Thus, while we shall offer the projected values of the various expenditure and revenue series in 1969 and in 1974 (in the Appendix these values are given annually to 1974), the value shown for any one year should be regarded more as indicating the value of the trend for that year than as a definite figure for that specific year. The values shown for 1969, for example, can more properly be treated as the projected average value for the years 1967-71.

7. It is clear from the nature of our assumptions that the projections that follow are not intended to indicate what will in fact be the future fiscal position of the provincial and municipal governments in Ontario. Before our projections could become forecasts of actual developments, they would need to be supplemented by precise information concerning the details of future economic events, both in the economy at large and in the revenue and spending policies of governments. The present projection goes as far as one can safely attempt to go in any ten-year projection; to attempt to do more, or to give the impression that we have done more, would be both dangerous and misleading. But interpreted in the light of the assumptions on which they are based, these projections take an important first step in the assessment of the fiscal prospects of the governments with which they are concerned.

PROJECTION OF POPULATION, LABOUR FORCE, EMPLOYMENT, AND PROVINCIAL DOMESTIC PRODUCT

8. Our projections of population, labour force, employment, and provincial domestic product provide essential background for the projections of the various fiscal magnitudes in which we are primarily interested. They are also of interest in their own right. In Table 6:1 we offer projections of some important economic

variables for 1969 and 1974, together with actual figures for 1963. The comments following the Table explain the bases of each of the principal projections and offer some brief interpretive observations.

TABLE 6:1

PROJECTED GROWTH OF POPULATION, LABOUR FORCE, EMPLOYMENT, AND PROVINCIAL DOMESTIC PRODUCT FOR ONTARIO

	1963	*1969*	*1974*	*1974 as a percentage of 1963*
		(thousands)		
Population	6,448	7,246	8,054	125%
Labour force	2,476	2,805	3,116	126
Number employed (96% of labour force in 1969 and 1974)	2,382	2,693	2,991	126
		(billions of dollars)		
P.D.P. in 1963 dollars	15.6	19.7	24.2	155
P.D.P. in current dollars	15.6	22.2	30.0	192

POPULATION

9. The projection of provincial population that we have used was prepared by the Ontario Department of Economics and Development. We have examined the assumptions on which it is based and we consider them to be reasonable. The projection assumes that there will be a continuing decline in death rates, especially for infants and for persons over 65 years of age. It is further assumed that fertility rates will increase within the 20-29 age group and remain unchanged for other ages. Net migration into Ontario, i.e., immigration from other provinces or from other countries, less emigration to other provinces or to other countries, is expected to average 20,000 persons per annum.

10. The result of these assumptions is a projection that shows an average rate of provincial population increase of 2.04 per cent per annum during the period 1963-74. This rate is below that of any of the three quinquennia of the 1946-61 period but slightly above the rate for the years 1961-65. For the longer period, 1921-65, the average annual rate of increase was 2.1 per cent. Considering a still longer period extending from the census of 1861 to 1941, the rate of population increase exceeded 1¾ per cent per annum. In the light of this past experience and of current trends, the projected rate of population growth of slightly more than 2 per cent a year appears to be reasonable.

LABOUR FORCE

11. From the population projection, we derive the figures for the expected future labour force of the province. In projecting the labour force, our procedure is to apply to each age and sex group a factor (the "participation rate") for the proportion of the group that is expected to be a part of the labour force. This

yields the number of persons from each group, and the aggregate for all groups gives the projected numbers in the total provincial labour force in each future year.

12. We have assumed, following usual practice, that the labour force excludes all persons less than 14 years of age. This means that all members of the 1974 labour force were at least two years of age at the beginning of 1963. The major element of uncertainty therefore rests with the labour force participation rates of the different age and sex groups.

13. For males, we have assumed a fairly sharp decline in the proportion of the 14-19 year age group who will be in the future labour force, a more gradual decline for those in the 20-24 year group and no change for older age groups. For females, our assumptions involve no net change for those in the 14-19 or 20-24 year age groups. We expect that an increasing proportion of these groups will remain in full-time attendance at educational institutions but that of those not so engaged, a higher proportion than at present will be in the labour force. The combined effects of these two influences will, we anticipate, produce no perceptible net change in the labour force participation rate for these two female age groups. For females aged 25 and over we have assumed, for all age groups, a continuous increase in the participation rate, for the duration of our forecast period.

PROVINCIAL DOMESTIC PRODUCT

14. "Provincial gross domestic product at factor cost" (hereafter designated P.D.P.) is a measure of the total value of goods and services produced, and hence of the total income generated, within the geographical boundaries of the Province of Ontario during a given interval of time, usually one year. The figure is arrived at before any deduction for depreciation and before the addition of that part of value represented by indirect taxes. The P.D.P. is projected as the product of two factors—the average number of employed persons and the average P.D.P. per person employed.

15. We have already described the labour force projection which, after allowance for unemployment, indicates the average number employed in each year of the period. In the years since the inflation that accompanied the Korean War, the unemployment figure for Ontario has averaged about 4 per cent of the provincial labour force. After carefully examining the historical record and evaluating recent trends, we are projecting average annual unemployment at this 4 per cent level of the labour force. The employed labour force is thus expected to average 96 per cent of the total labour force and, since we have already projected the total labour force, it is a simple matter to calculate the projected number of persons employed, in each of the years with which we are concerned.

16. The other element in this projection is the average contribution to P.D.P. per person employed. This figure was just under $6,500 in 1963 and we have projected its increase at 2 per cent per annum in real terms, i.e., at constant

prices. This rate of increase approximates the average of the past twelve years and in so far as one can judge from the evidence available, it is also very close to the long-term average rate of increase in productivity within the provincial economy.

17. At this point we have now developed all the constituents required to project the P.D.P. in constant dollars. We are concerned, however, with the actual amount of government revenue and government expenditure in the current dollars of the respective future years. This means that we must also consider future changes in the level of prices. In making our assessment of the future trend of the general price level, we have examined the record since 1952 and considered the forces that seem likely to operate in the future. Our conclusion is that our projection should allow for a general price increase of 2 per cent per annum and our current-dollar projection of P.D.P. has been calculated accordingly.

18. Our projected P.D.P. in current dollars rises from $15.6 billion in 1963 to $30.0 billion in 1974. This increase of 92 per cent in eleven years represents an average increase of 6.1 per cent per annum. For each individual year, the increase over the preceding year is in no instance far from this average. Of this total of 6.1 per cent, price increase accounts for 2 per cent, so that the increase in production in real terms averages some 4.1 per cent a year. This annual 4.1 per cent increase in physical volume is, in turn, made up of a 2 per cent increase in per-capita productivity and an average increase of just under 2.1 per cent in the number of persons employed.

19. Beginning with 1963 as the base year, the average projected rate of increase in P.D.P. is in every year close to 6 per cent. We note that the actual P.D.P. in 1964 and 1965 was somewhat above our figures projected for these years and it likewise seems certain that in 1966 the realized P.D.P. will again exceed our projected figure. The years since 1963 have, however, shown a higher average level of prosperity, and so a more rapid rate of increase in income, than we would expect on the average over a decade. Just as P.D.P. has grown more rapidly than we have projected in the years since 1963, so it is probable that in some future years it will grow less rapidly. Consequently, we have not revised the figures in our projection for 1969 or later years. Our procedure has been to replace our projected P.D.P. for 1964, 1965 and 1966 with either the actual figure or the best estimate for each of these years. We assume that in the years immediately after 1966 the rate of growth will be such that by 1969 the actual P.D.P. will coincide with our projected figure. We therefore assume that beginning with 1969, the P.D.P. figures in our projection are the appropriate ones to use.

20. These projections of provincial population, labour force, and product represent the indispensable background for the projection of the required fiscal magnitudes of the provincial and local governments in Ontario. It is to a consideration of these magnitudes that we must now direct our attention.

PROJECTION OF MUNICIPAL AND SCHOOL BOARD REVENUE, EXPENDITURE AND DEBT

21. In our projections of the budgetary position of each level of government, we shall begin with revenues, follow with expenditures and then consider intergovernmental transfers. Finally, in bringing together all of these series, we shall be able to show the projected cumulative total of government debt. We shall first consider the fiscal position of the municipalities and school boards, and then turn our attention to that of the provincial government.

MUNICIPAL REVENUES

22. The real property and business taxes are by far the most important source of municipal net revenue, accounting for some 90 per cent of the total. The other sources are federal and provincial grants in lieu of such property taxes, and miscellaneous revenues from permits, fees, licences, fines, etc.

TABLE 6:2

MUNICIPAL REVENUES
(Excluding grants from Province)

	1963	*1969*	*1974*	*1974 as a percentage of 1963*
		(millions of dollars)		
Property and business taxes	744	1,186	1,748	235%
Federal subsidies, and grants in lieu of taxes	18	26	34	189
Other current revenues	68	91	125	184
Total Revenue	830	1,303	1,907	230
P.D.P.	15,600	22,200	30,000	192
Total Revenue as percentage of P.D.P.	5.3%	5.9%	6.4%	

23. The figures in Table 6:2 show the major items of municipal revenue, the relative increase in each over the period 1963 to 1974, and the relationship of total municipal revenue to P.D.P. in each indicated year. Detailed comment is required only in explaining our basis of projecting the revenue from the property and business taxes.

24. For all taxes except the property and business taxes, we have assumed a constant tax rate and we have projected the yield of each tax at the appropriate rate. For the property and business taxes, there are both economic and legal grounds for projecting the yield on the basis of variable tax rates. The economic reason derives from the fact that for all or nearly all of the other taxes—e.g. the personal income tax, the sales tax and the corporation income tax—a rise in the price level will bring, directly or indirectly, an increase in the tax base. An increase in revenue is thereby realized without any increase in the tax rate. Here the elasticity of the tax yield is provided through the tax base and there is consequently less need for variation in the tax rate. For the municipal real property tax, adjustments

in the tax base (the assessed value of a given piece of property) tend to lag far behind rising property values and the continuously increasing costs of municipal government. Elsewhere in our Report we recommend a transition to the assessment of real property at current market value, a procedure that would greatly lessen the present rigidities in the municipal tax base. Given prevalent assessment procedures, the chief element of elasticity in the real property tax base tends to come from new capital construction which, of course, provides an increase in total assessment. In the past, such new construction has not provided a sufficient degree of elasticity to overcome the relative inflexibility in the tax base, and this has necessitated year-to-year increases in the tax rate.

25. The legislative procedure for striking real property tax rates further strengthens the case for projecting a variable rate of tax. If we consider other taxes, we find that once the rate has been set, it tends to remain for some time at the level specified, until changed by new legislation. By contrast, the municipal property tax rate is set for one year only and it is struck anew each year. We think that our projection procedure should reflect this fact, and we have accordingly projected a change in the rate of tax. In 1963, the average rate of the tax was 65 mills per dollar of assessment, and for some time prior to 1963 the rate has been increasing by an average 1½ per cent per year. We therefore projected at this same rate a continued upward movement in the average yield of the tax per dollar of taxable assessment. The result is that by 1974 the rate will reach 76 mills. This increase is, of course, reflected in the figures shown in Table 6:2.

26. It may be thought that the projected increase in the real property tax rate is unduly great and that the upward trend of the past few years cannot continue as rapidly in the coming decade. An examination of the historical record shows, however, that the yield of this tax in relation to P.D.P. was unusually low just after the war and that even after the increases of the past fifteen years, its yield was still a smaller proportion of P.D.P. than it was in the late 1920's. In 1926, for example, the yield was 5.4 per cent of P.D.P., in 1929 5.0 per cent and in 1939 it was again 5.4 per cent. In 1963, the comparable figure was 4.8 per cent, and by 1974, according to our projection, it will have risen to only 5.8 per cent, which is no higher than it was in 1937. Most taxes today take a higher proportion of income than they did in the inter-war period. In view of this fact, and the fact that municipalities are now expected to provide a much higher standard of services, especially in the costly areas of education, roads, and social welfare, the projected yield of the municipal property tax appears to be consistent with historical experience.

27. Federal contributions, grants and subsidies to municipalities in Ontario totalled $18 million in 1963, of which the major item was grants in lieu of taxes on federal property, which is legally exempt from taxation by the local governments in the various municipalities. All other municipal current revenues in 1963 amounted to $68 million. These two groups of revenues were projected separately, but each projection assumes the continuation of past trends.

SCHOOL BOARD EXPENDITURE

28. In our projection of school board expenditures we have considered separately expenditures for elementary and for secondary education, and at each level we have distinguished between current and capital expenditures. The cost of servicing debt incurred for educational purposes has been included in the total for local government debt service shown in Table 6:6.

29. Our consideration of education costs begins with a projection of the number of pupils expected to occupy places in the schools. We assume that the average number of pupils per teacher will decline gradually, at both the elementary and, somewhat more rapidly, the secondary level, and that teachers' average salaries will increase at the rate of 3½ per cent per annum for public school teachers and 4 per cent per annum for high school teachers. Continuing the trend of recent years, our projection provides for an increasing proportion of elementary school pupils to be enrolled in separate schools and for a further narrowing of the spread between the average cost per pupil in public and in separate elementary schools. The combined effect of all these factors leads to a projected increase in average cost of 5½ per cent per annum per pupil enrolled (considering public and separate elementary school pupils in total). For secondary school students, the comparable figure is just under 6 per cent.

30. Our projection of capital expenditure provides for the addition of new school-places to accommodate anticipated increased enrolments and for the replacement by 1975 of almost all school accommodation built before 1945. We

TABLE 6:3

EXPENDITURE BY ELEMENTARY AND SECONDARY SCHOOL BOARDS

	1963	*1969*	*1974*	*1974 as a percentage of 1963*
Elementary School Boards				
Number of pupils (thousands)	1,233	1,406	1,537	125%
Current operating cost (millions)	$295	$464	$ 662	224
Capital outlays for new places and replacement of existing places (millions)	41	57	77	188
Total Elementary Expenditure	$336	$521	$ 739	220
Secondary School Boards				
Number of pupils (thousands)	364	507	577	159
Current operating cost (millions)	$180	$365	$ 535	297
Capital outlays for new places and replacement of existing places (millions)	17*	38	51	300
Total Secondary Expenditure	$197	$403	$ 586	297
Total School Board Expenditure	$533	$924	$1,325	249
Total School Board Expenditure as a percentage of P.D.P.	3.4%	4.2%	4.4%	

*This figure does not include grants received for the construction of vocational schools.

have also provided, in our projection of capital costs, for an annual increase of 2 per cent in the general price level and for an additional annual increase of 2 per cent for improvements in the quality of school facilities.

MUNICIPAL EXPENDITURE

31. In projecting this category of expenditures we have, as with education, considered current and capital spending separately. As components of current expenditure, we have made separate projections for public works and for health. Interest payments are not included here, inasmuch as they cannot be calculated until we have projected a figure for the amount of debt outstanding at the beginning of each year, as shown in Table 6:6. "All other" current expenditures have been projected as a single aggregate.

32. Municipal expenditures on capital account have been projected under the major categories of public works, sanitation, health and other. The capital expenditure figures in Table 6:4 include only those incurred in acquiring durable real assets and exclude outlays for debt retirement. Such debt retirement outlays have in recent years amounted to some 18 per cent of total municipal capital expenditure.[2]

TABLE 6:4

MUNICIPAL CURRENT AND CAPITAL EXPENDITURE*

	1963	*1969*	*1974*	*1974 as a percentage of 1963*
	(millions of dollars)			
Current Expenditure				
Public works	133	200	264	198%
Health	17	30	47	276
Other	341	515	733	215
Total Current Expenditure	491	745	1,044	213
Capital Expenditure				
Public works	134	226	322	240
Sanitation	57	98	153	268
Health	5	16	25	500
Other	28	53	73	261
Total Capital Expenditure	224	393	573	256
Total Municipal Expenditure	715	1,138	1,617	226
Total Municipal Expenditure as percentage of P.D.P.	4.6%	5.1%	5.4%	

*Expenditures for education and for interest on debt are not included in this Table. For information on these items, see Table 6:3 and Table 6:6.

33. The projected expenditures on public works, both on current and on capital account, have been derived from the provincial grants made to municipalities for roads, streets, etc. The method of projecting these provincial grants is described

[2]Dominion Bureau of Statistics, *Financial Statistics of Municipal Governments.*

in a later section of this chapter. We have assumed that the proportion of the total municipal expenditure covered by these grants will remain at approximately the average level of the past few years and we have derived total expenditure on current and capital accounts respectively from the projected provincial grants for these categories of expenditure.

34. Capital outlays on sanitation have been a major item of municipal expenditure throughout the past decade. After examining these outlays between 1953 and 1964, we concluded that we should allow for an increase in sanitation expenditures at the rate of 5 per cent per annum per capita, in constant dollars. When the constant dollar figures are converted to a current basis and then multiplied by the population, we arrive at the projected expenditure figure.

35. Municipal expenditures on health, whether on current or capital account, are small in relation to total municipal expenditures. Changes now taking place in this field make it very difficult to establish a firm basis on which to make a projection, but we expect that there will be a continuing increase in the scope and cost of various kinds of public health measures. We have allowed in our projection for an average increase in current health expenditure of $3 million per annum and for an average increase of $2 million per annum in capital outlays. In percentage terms, this involves a rapid rate of increase, but the projected total municipal expenditure on health, current and capital combined, will be less than 5 per cent of total municipal expenditure in every year of the period.

36. For "all other" expenditure, both current and capital, the general technique used is similar to that used for sanitation. In these areas, however, the projected rate of increase is between 3½ and 4 per cent per annum per capita in constant dollars, and this expenditure therefore increases at 7 to 8 per cent per annum in current dollars.

GRANTS TO LOCAL GOVERNMENTS FROM THE PROVINCE

37. Local governments receive grants from the Province for many different purposes, but in recent years some 70 to 75 per cent of the total dollar amount of such grants has been directed to education and to public works, mainly streets and roads. Other substantial but smaller amounts have been paid to the municipalities for general welfare assistance and as unconditional grants.

38. The introduction of the Ontario Foundation Tax Plan in 1964 raised the level of provincial government support for elementary and secondary school boards. In 1966 it is estimated that provincial grants will cover 48 per cent of school board expenditures for current operations, capital expenditure financed from current revenues, and debt service costs. We have assumed that with the continuing growth of these school board expenditures, the relative size of provincial grants will decline by 1 percentage point a year, although the absolute amount will increase very substantially, until it reaches 45 per cent in 1969; thereafter, this percentage is assumed to be maintained until the end of our forecast period.

39. The Province also makes large grants to the municipalities for roads and streets. These grants now amount to about one-third of total municipal expenditure on highways, roads and streets, and we have assumed that there will be no significant change in this proportion. Total expenditure on these items by the Province has been projected in the provincial section of this chapter, and we have used the data from that section in projecting these grants to the municipalities. Of the total of such grants, we have assumed that approximately two-thirds would be for capital projects and one-third for expenditures on current account. However, if the projection is examined in more detail, it will be seen that we have allowed for a somewhat more rapid growth of grants related to capital expenditure than for those related to expenditure on current account, i.e., repair and maintenance of roads and streets.

40. For our present purposes, we have grouped in a single category all other provincial grants to the municipalities. In 1965 and 1966, these grants averaged 18 per cent of estimated municipal expenditure, apart from outlays for education and roads. This percentage has shown a persistent upward trend over the past decade, but this reflects mainly changes in the bases on which such grants have been made. For purposes of this projection, we are assuming that the present bases of making the grants will not change and we have therefore projected the amount of the grants throughout the period at the 18 per cent figure that represents the 1965 and 1966 average. We have assumed, from the experience of recent years, that 80 per cent of these grants will apply to current expenditure and 20 per cent to capital expenditure.

TABLE 6:5

LOCAL GOVERNMENT GRANTS RECEIVED FROM THE PROVINCE

	1963	*1969*	*1974*	*1974 as a percentage of 1963*
	(millions of dollars)			
Current Account Grants				
Education	193	388	560	290%
Public works	32	46	61	191
Other current	58	102	149	257
Total Current Grants	283	536	770	272
Capital and Debt Service Grants				
Education	36	61	84	233
Public works	53	89	124	234
Other capital	14	26	37	264
Total Capital Grants	103	176	245	238
Total Grants	386	712	1,015	263
Total Grants as percentage of Total Local Expenditure	29%	33%	33%	

BUDGETARY AND DEBT POSITION

41. We now bring together in Table 6:6 the projected totals for the various items of local revenue, grants and expenditure, in order to provide a general picture of the over-all financial position of the municipalities and school boards.

TABLE 6:6

BUDGETARY AND DEBT POSITION OF LOCAL GOVERNMENTS

		1963	1969	1974	1974 as a percentage of 1963
		(millions of dollars)			
	Revenue				
1.	Local government current revenues	830	1,303	1,907	230%
2.	Grants from Province for current purposes	283	536	770	272
3.	Total Revenue on Current Account	1,113	1,839	2,677	241
	Current Expenditure				
4.	Expenditures on current account (excluding interest)	966	1,574	2,241	232
5.	Interest	65	110	154	237
6.	Total Expenditure on Current Account	1,031	1,684	2,395	232
7.	Surplus on Current Account	82	155	282	344
	Capital Expenditure				
8.	Expenditures on capital account	282	488	701	249
9.	Less provincial grants for capital purposes	103	176	245	238
10.	Capital Expenditure Net of Grants	179	312	456	255
11.	Deficit (= increase in debt)	97	157	174	179
12.	Net debt outstanding (December 31)	1,499	2,380	3,244	216
13.	Estimated separate school net debt	133	190	247	186
14.	Net debt outstanding (excluding separate school net debt)	1,366	2,190	2,997	219
15.	Provincial Domestic Product	15,600	22,200	30,000	192
16.	Debt (line 14) as Percentage of P.D.P.	8.8%	9.9%	10.0%	

42. The figures in Table 6:6 are so arranged as to show total revenue, including grants, on current account, total current account expenditure and, in line 7 of the Table, the surplus on current account, after providing for interest on debt but before providing for any capital repayments or for the financing of any capital expenditure from current revenue. Total capital expenditure less grants on capital account is shown in line 10 and the figure for the increase in debt—i.e., the excess of total expenditure over total revenue—appears in line 11. This annual increase in debt, when added to the figure at the beginning of the year, gives in line 12 the total net debt outstanding at the end of the year. This total comprises general municipal and school board debt but excludes the debt of municipal utilities, which is deemed to be self-liquidating. Separate school debt is included in the figures shown in line 12, but because this is not a municipal liability, this debt (net of

sinking funds) has been deducted, to give the relevant measure of the net debt of local governments, line 14. The bottom section of the Table shows the net debt in each of three years as a percentage of P.D.P. in that year.

43. It will be noted that in each of these years (and it is true for all the other years of the period as well) a surplus on current account transactions is projected. However, after taking expenditure for capital purposes into account, there is a continuous increase in the net debt. This increase, if we include the debt of separate-school boards, was $97 million in 1963 and is projected to rise to $157 million in 1969 and to $174 million in 1974. If the increase in separate school debt is excluded, the comparable figures are $87, $147 and $161 million.

44. The cumulative effect of these annual increases is to raise local net debt, excluding that of separate school boards, by about 60 per cent between 1963 and 1969, and in the remaining five years of our projection period a further increase of some 35 per cent occurs. By the end of 1974 the debt total is therefore about two and one-quarter times that of 1963. In relation to P.D.P., the debt rises fairly rapidly from 8.8 per cent in 1963 to 9.9 per cent in 1969 but after 1969 there is virtually no change in the ratio of debt to P.D.P. in any of the remaining years.

45. Let us now review this projected debt of Ontario's local governments in the light of historical experience. Data are not available for the 1920's, but in 1939 local government debt in the province was an estimated 11 per cent of P.D.P. By 1955 it had declined to 5 per cent, but since that time it has been rising. Our projection indicates that this increase will continue until 1970, after which time the ratio of debt to P.D.P. will remain constant, at a figure slightly below that for 1939. We should nevertheless remind ourselves once again of the assumptions on which this conclusion is based. We have assumed a continuation of the past rate of increase in the mill rate of the real property and business tax, but apart from this we have projected other revenues and grants on their present basis. On the expenditure side, the projected costs of municipal and school board services take account of constantly improving quality, a growing population and a rising trend in the general price level. In addition, by projecting past trends, we have built in some provision for continuing modifications and extensions of existing programs and for the addition of minor new programs, at the same rate as in recent years.

46. In summary, we conclude that with a rise in net municipal and school board debt to a level slightly above its present proportion of P.D.P., but to less than that of the late 1930's, the present local revenue system will generate sufficient financial resources to permit Ontario municipalities and school boards to discharge their responsibilities satisfactorily, in the absence of any large new programs. This is not to suggest, however, that the local revenue system may be regarded as either adequate or equitable, and many of the subsequent recommendations in our Report are designed to improve the system in these respects.

PROJECTIONS OF PROVINCIAL REVENUE

47. In projecting the fiscal position of the Province, we shall proceed along lines similar to those adopted in dealing with the municipalities and school boards. We shall begin with a projection of revenues and then go on to consider expenditures, classified as to current account and capital account. Transfers from the Province to the municipalities and school boards are considered next, and finally we bring together the total revenue and total expenditure figures. We thereby arrive at the projected surplus or deficit position of the Province for each year, as well as the accumulated provincial debt at the end of each year of the projection period.

48. The aggregate which we first project is the total revenue on current account or, to use the official terminology, the total "net ordinary revenue" of the Province. In recent years, approximately 90 per cent of this revenue has come from eight revenue sources, the remaining 10 per cent being derived from a multitude of miscellaneous forms of income. Our procedure will be to project separately the revenue yield of each of the eight major sources and to deal with all other sources as a single item. All projections assume that the provincial tax rates and the general revenue structure remain, throughout the period, as they were after the 1966 provincial budget changes were effected.

49. In each of four major sources of revenue, it was found that revenue in recent years has shown little variation when expressed as a percentage of P.D.P. We therefore projected the yield from each of these sources, at 1966 tax levels, as a simple percentage of P.D.P. The revenue items involved, and the percentages used for each, are shown below.

Revenue Source	*Percentage of P.D.P.*
Corporations Tax	1.35%
Retail Sales Tax	1.95
Succession Duty	0.285
Liquor Control Board	0.67

SHARE OF FEDERAL ESTATE TAX

50. In addition, the Province's share of revenue from the federal estate tax was projected as one-third of the revenue from succession duty, so that the projected revenue from this fifth source depends ultimately on the size of the P.D.P.

GASOLINE TAX

51. The Ontario gasoline tax was raised to 16 cents per gallon in the 1966 Budget. Because it is based on the physical quantity of gasoline subject to tax, the yield might be expected to be related to P.D.P. at constant prices, which is to say, to the physical volume of production of goods and services. In fact, the yield of the gasoline tax in recent years, after adjustment for changes in the rate, has been a very nearly constant proportion of P.D.P. when this latter magnitude is

valued at constant prices. The future yield of the tax has therefore been projected at 1.40 per cent of P.D.P., valued at 1963 prices.

MOTOR VEHICLE LICENCES AND PERMITS

52. There are several items in this group, of which licences for passenger and commercial vehicles provide the bulk of the revenue. For passenger licences, our procedure has been to calculate the average licence fee per vehicle, to project the number of vehicles, using an equation involving the historical relationship between the number of licensed passenger vehicles and the population, and thereby to derive the total projected revenue. A similar procedure has been used in projecting commercial vehicle licence revenues. Other revenues in this group, which are small and have been growing slowly, were projected by a simple extrapolation of their past trend.

PERSONAL INCOME TAX

53. Here we have projected the total personal income tax to be collected from residents of Ontario by the federal government on its own behalf and on behalf of the Province. The description of this projection is complex but a brief outline will be found in the Appendix. For 1966 and subsequent years, it was assumed that 24 per cent of the relevant amount of tax collected would be paid to Ontario, in accordance with the terms of the Province's then current taxation agreement with the federal government.

TABLE 6:7

REVENUES OF THE GOVERNMENT OF ONTARIO—FISCAL YEARS ENDING MARCH 31[8]

	1964	*1970*	*1975*	*1975 as a percentage of 1964*
	(millions of dollars)			
Personal income tax	164	428	635	387%
Corporations tax	210	300	405	193
Gasoline tax	184	276	337	183
Retail sales tax	187	433	585	313
Succession duty	44	63	86	195
Motor vehicle permits, etc.	76	94	113	149
Liquor Control Board of Ontario	97	149	201	207
Share of federal estate tax	—	21	29	—
Other ordinary revenue	117	197	259	221
Total Net Ordinary Revenue	1,079	1,961	2,650	246
P.D.P. (nearest calendar year)	15,600	22,200	30,000	192%
Total Net Ordinary Revenue as percentage of P.D.P.	6.9%	8.8%	8.8%	

[8]In this chapter, all data relating to provincial revenue, expenditure or debt are expressed on a fiscal year basis. Thus, in Table 6:7 above, the year "1964" includes the period from April 1, 1963 to March 31, 1964.

OTHER CURRENT REVENUE

54. These revenues account collectively for only 10 per cent of the "net ordinary revenue" of the Province, being smaller in total than the revenue derived from any one of the four largest revenue sources. For this category, projections on three separate bases were made: first, as a proportion of P.D.P.; second, as a proportion of the net ordinary revenue from the eight sources less the yield of the personal income tax and less the Province's share of the federal estate tax; third, as a simple projection of their past trend. These three projections did not differ to any appreciable extent. The projection actually used is that based on the proportion of net ordinary revenue, and the total of "other current" revenue has been projected at 15 per cent of the total yield of the relevant six revenue sources indicated in this approach.

55. The figures shown in Table 6:7 require little explanation and we offer only one comment by way of interpretation. It will be noted that total net ordinary revenue, expressed as a percentage of P.D.P., rises between 1964 and 1970 but that no further change has appeared by 1975. The reason for the early increase is that some rates of tax, notably the sales and gasoline tax rates, were increased during the first period and also that the percentage rebate from the federal government, with respect to the personal income tax, rose between 1963 and 1966. For the second period, 1970 to 1975, the tax rates have been assumed to remain unchanged. When this assumption is made, it appears from the figures in the last line of Table 6:7 that total net ordinary revenue increases at the same percentage rate as does P.D.P., measured in current dollars.

PROJECTIONS OF PROVINCIAL EXPENDITURE

56. In projecting provincial expenditure, we shall consider the categories of education, roads, health and "all other", in each of which we shall project separately the Province's expenditures on current and on capital account. In addition, we note the grants that the Province makes to municipalities and school boards. These were dealt with from the recipient's viewpoint in our projections of the revenues of Ontario municipalities and school boards, and the same figures, now adjusted to a provincial fiscal year basis, indicate the projected outlays of the Province on these grants. The remaining item of expenditure, interest on the provincial debt, will be projected by means of the same technique employed for the municipalities, but the annual rate of interest that we relate to provincial debt is 5 per cent. This rate of interest is below that which applies currently (mid-1966) on new borrowing by the Province but it is in line with the average rate over a longer period of time. It should be noted that the terms "current" and "capital" have been used. These categories do not correspond identically to the "ordinary" and "capital" classifications used by the Government of Ontario in its accounts.

EDUCATION

57. We are concerned here with provincial expenditure for post-secondary education and with provincial contributions to teachers' superannuation funds.

Other expenditures on education are included in the provincial grants to school boards and a relatively small amount is found in the residual item of provincial expenditure.

Superannuation

58. In recent years, the provincial contribution to teachers' superannuation funds has been related partly to the unfunded portion of the superannuation account and partly to contributions in respect of teachers' current service. The past service contribution in the 1966 fiscal year, and the figure in the provincial estimates for 1967, are each just under $15 million. It is assumed that this item will remain at the same level for the duration of our forecast period.

59. The Province's contribution with respect to teachers' current service has been running at approximately 6 per cent of total teaching salaries paid by the elementary and secondary school boards. Having projected the future salary bill, we assume that provincial contributions with respect to teachers' current service will remain at 6 per cent of total teachers' salaries. Our projection of total provincial contributions reaches $65 million in the 1975 fiscal year.

Post-Secondary Education

60. Our procedure in projecting the cost to the Province of post-secondary education[4] has been first to consider the question of enrolment, from which we have then projected total costs. We then consider the amounts of revenue that seem likely to be forthcoming from sources other than the provincial treasury. The remainder of the projected total cost of post-secondary education is then assumed to be borne by the Province.

61. The central and most difficult problem is to project the total enrolment in institutions of post-secondary education during the coming decade. For purposes of making this projection, we assume that institutional arrangements as they exist at present, or as they will be modified by plans already publicly announced by the government, will be in effect throughout the period. More specifically, our projections assume that Grade 13 will remain in existence as the university preparatory year and that teachers for elementary schools will be trained in Teachers' Colleges as they are now. There is a very high probability that these assumptions will in fact not be realized, but a projection must begin from existing circumstances. We shall consider in a later section of this chapter the possible cost implications of discontinuing Grade 13 and of requiring a university degree as a qualification for all newly-qualifying teachers in elementary schools. We also assume that the federal government will continue to finance about the same proportion of the cost of post-secondary education as it has in the past. There are sound reasons for expecting that this proportion will in fact increase in future, and to the extent that this happens, the cost to the provincial treasury will be reduced. There are many possibilities in this area but it would be fruitless to pursue them here. We shall

[4]This term is used for convenience rather than with precise accuracy. It includes students in full-time attendance at universities, at Teachers' Colleges and those enrolled in full-time vocational and technological training courses. In all cases, we are concerned only with institutions which receive support from provincial funds.

assume, as the only practicable course, that the trend of past experience will be continued in the period of our projection.

62. The Ontario government has recently announced that it intends to introduce a province-wide system of Colleges of Applied Arts and Technology and that it intends to proceed vigorously with the development of these colleges. We assume, accordingly, that there will be a very rapid rate of increase in the numbers of students who will be undertaking this type of training.

Enrolment Projection

63. In dealing with the difficult question of future enrolments in the various types of post-secondary education, the most generally satisfactory procedure seems to be to begin by projecting a total figure for numbers in the whole range of post-secondary education, as we have defined that term, and then to consider how this total seems likely to be divided among the various types of programs within this broad category. In the paragraphs immediately following, we shall pass over the problem of post-graduate enrolment, returning to consider it separately at a later stage.

64. In the 1965-66 academic year, total enrolment in Ontario post-secondary education, excluding graduate students, was some 60,000, or 16 per cent of the 18-21 year age group of the province. We have projected enrolment in 1974-75 at 30 per cent of the same age group, which implies a total enrolment in that year of 165,000. In arriving at this figure, we have examined past trends in the percentage of the age group involved in some form of post-secondary education, as well as the number of students who are likely to be completing either four or five years of high school. Although comparisons are difficult, we have also given some attention to comparable proportions in the United States. It would be more tedious than illuminating to offer a detailed account of the methods that we adopted in arriving at the projected total enrolment. As an alternative to such detail, we simply note that our projection provides for about two-thirds of all those who are expected to enter Grade 12 to have some form of post-secondary education and for more than 80 per cent of those who complete Grade 13 to proceed either to university or to Teachers' Colleges.

65. In evaluating these proportions, it should be kept in mind that substantial numbers of students going on to such forms of post-secondary education as nursing or business college will not be included in our figures. On the other hand, some who will be enrolled in an institution of post-secondary education will never have reached Grade 12 or will have returned to some type of post-secondary education after a period away from school. We must also remember that at present there are about twice as many men as women in post-secondary education and that while we expect this imbalance to be reduced in the coming decade, it is likely to remain substantial throughout the period of our projection. To the extent that this tendency persists, the proportion of all students who proceed to further education will be lower than it would be if we were considering only men. In view of these considerations, we think that our projection provides adequately for the numbers who

will wish to undertake any of the various types of post-secondary education that we have indicated, and who will be qualified to do so.

66. Having projected a total post-secondary enrolment of 165,000 students by 1974-75, we must next consider how this total will be distributed among the various types of institution. Our conclusions concerning this matter are summarized in Table 6:8.

TABLE 6:8

DISTRIBUTION OF POST-SECONDARY STUDENTS IN ONTARIO

	*1965**	*1969*	*1974*
		(thousands)	
University (undergraduate)	44	80	110
Teachers' Colleges	6	8	10
Technical and vocational	10	22	45
Total	60	110	165
Graduate	7	13	20
Total Post-Secondary Students	67	123	185

*Academic years beginning September.

67. The smallest relative increase is seen to occur in Teachers' Colleges enrolment. This projection is related to the number of elementary school teachers required to staff the schools of the province. It provides for an increase in the total number of elementary teachers in Ontario schools and also for replacing those who withdraw from the teaching profession.

68. Our projection of university undergraduate enrolment is related to the number of students who will be completing the senior grades in high school and to the proportion of these who will proceed to university. We have assumed a higher than present retention rate in high school and we have also assumed that a higher proportion of those who are qualified to do so will enter university.

69. Present enrolment in technical and vocational institutions is not large but it is expected to increase rapidly in the coming decade. From such a small beginning, the projection of rapid growth is unusually difficult and in a sense it is correct to say that we have dealt with this difficulty by assuming that that part of the projected total enrolment which is not in university or Teachers' Colleges will be in technical and vocational institutions. In other words, this technical and vocational enrolment has been treated as the residual item. But it should nevertheless be noted that in 1974-75 it is 450 per cent of 1965-66 enrolment, while the corresponding figure for Teachers' Colleges is 167 per cent and for undergraduate university enrolment, 250 per cent.

70. It is assumed that by 1974, technical and vocational training in Ontario will be concentrated in some fifteen to twenty Colleges of Applied Arts and Technology and that enrolment in the individual colleges will average somewhere between 2,000 and 3,000 students. If we assume that there are between fifteen

and twenty of these colleges in 1974-75, with an average enrolment of 2,500 each, we arrive at a total enrolment of between 37,000 and 50,000 students. Our projected figure of 45,000 therefore seems acceptable.

71. As a final note, it is worth pointing out that the average annual increase in post-secondary education, whether measured in absolute or relative terms, is somewhat more rapid in the years before 1969-70 than in the second part of the period. This provides additional confirmation for the widely-recognized expectation that the strain on the post-secondary educational system is likely to be at a peak during the remainder of this present decade. While this is important in relation to the growth of operating costs, it bears with particular force on the financial requirements for expanding the capital facilities of post-secondary institutions within the next very few years.

72. Our central concern relates to future financial requirements in provincial education and it is in this context that we have projected the future trend of enrolments. Having done so, we now proceed to estimate the operating cost per student, after which we calculate the total operating cost for each type of institution in each year. Enrolment figures also provide a means of estimating the number of additional places that must be forthcoming, and after deriving an estimate of the capital cost per place, we can then project the total capital cost in each year. We shall deal first with the operating and capital costs of universities, both for undergraduate and graduate students, then proceed to the Teachers' Colleges and finally consider the Colleges of Applied Arts and Technology.

University Costs—Operating

73. In dealing with the operating costs of universities, we must consider graduate and undergraduate costs together, since it is not possible to separate them. We shall assume that operating costs per graduate student are, on the average, three times those for an undergraduate and we shall, for purposes of projecting operating costs, deal in terms of the equivalent number of undergraduate students. We assign to each graduate student a weight of three, compared with a weight of one for each undergraduate. Our cost figures will therefore be expressed as the operating cost per year per equivalent undergraduate student.

74. Proceeding on this basis, we find that the operating cost per equivalent undergraduate student, in the university year 1963-64, was just under $1,900. We assume that this cost will rise at 6 per cent per annum, being therefore slightly above $3,500 per student by 1974-75. This annual rate of increase is almost exactly equal to that of the past few years, and in view of the rapid expansion that will be experienced in this area in the coming decade, we do not expect it to moderate. On this basis, we arrive at a figure of $602 million in 1974-75, as the total of operating costs of provincially assisted universities in Ontario.

75. These costs will, of course, not be met entirely by the provincial government. Universities also receive income from students' fees, from the federal government and from other sources such as endowments, municipal governments and gifts. We assume that fees per student will increase over the period at the same

rate as per-capita income, i.e., 4 per cent per annum. Having assumed that operating costs per student will increase at 6 per cent per annum, we conclude that fees will cover a declining proportion of university operating costs. The proportion in 1963-64 was 24 per cent, and given our assumptions, it will have fallen to 15 per cent by 1974-75.

76. The federal government supports universities chiefly through its per-capita grant and through support for university research. In the past, total federal contributions have approximated 25 per cent of university current operating costs. The increase in per-capita grant to $5 in 1966-67 will, at least temporarily, bring federal support to a somewhat higher proportion than formerly. However, if no further changes are made, this proportion will decline again as university operating costs increase at a more rapid rate than population. We think it highly probable that further increases, in one form or another, will be necessary, but since it is not our purpose to forecast changes in either federal or provincial government policy, we assume that the federal contribution, while increasing in dollar amount after 1966-67, will remain at 25 per cent of the universities' total current operating costs.

77. Revenues from other sources now provide about one-eighth of university operating costs. We expect that contributions from these sources will increase at the same rate as P.D.P. Since university operating costs will be increasing at a considerably more rapid rate, the relative importance of such funds will decline. Thus, according to our projection, revenue from these sources will by 1974-75 account for only 5 per cent of total current operating costs, although in absolute amount they will have become almost twice as large as they were in 1963-64.

78. We assume that the remainder of the universities' operating expenditures will be met by provincial grants. From a level of $36 million in 1963-64, our figures show such grants increasing to $153 million in 1969-70 and to $328 million for 1974-75.

University Costs—Capital

79. The cost of each new undergraduate place to the provincial government averaged an estimated $7,150 in 1964-65. We have assumed that this figure will increase at 5 per cent per annum (2 per cent because of price increases and 3 per cent reflecting the effects of the greater complexity and the rising standards of modern university facilities). We have projected annually the cost of providing the additional places for the increased enrolment expected in the following year, in accordance with our projected enrolment figures. We have projected capital costs for graduate places in a similar manner, but we have assumed that one graduate place will cost twice as much, on the average, as an undergraduate place.

80. In many instances, a building program will involve capital expenditure some time in advance of the increase in enrolment. We have therefore increased the figures in our projection in the early years of the period, both to allow for this factor and to bring our figures more closely into line with the level of recent capital expenditure and that anticipated in the near future. This procedure implies that we might have reduced the figures for later years. We have chosen not to do so, in

order to provide a margin for unexpected and possible costly future developments and also to recognize the fact that the distribution of university enrolments and university places may not always be perfectly correlated.

81. Our figures also encompass provincial grants with respect to the provision of additional university residence accommodation. The amounts involved are relatively small because Central Mortgage and Housing Corporation loans are available to cover a large part of the costs and no detailed account of their derivation therefore seems necessary. We think the maximum level attained by these grants will be $5 million in 1974-75.

82. The total projected cost to the Province for capital grants to universities for graduate, undergraduate and residence places over the period 1966-67 to 1974-75 is $982 million. As we would have expected, these outlays in the late 1960's are at a somewhat higher level than those in the first half of the 1970's, a circumstance reflecting the pattern of enrolment increases over the period.

Teachers' Colleges—Operating and Capital Costs

83. Teachers' College enrolment in 1965-66 was approximately 6,000, and we have projected an increase to 10,000 by 1974-75, if present arrangements for the training of teachers for elementary schools are continued until that time. The operating cost per student in 1965-66 was very close to $1,000, and this is expected to increase at 6 per cent per annum. On these assumptions, the total annual operating costs of Teachers' Colleges would be $18 million by 1974-75.

84. Capital costs will be incurred to provide the increased number of places, but the disappearance of the two-year program for training teachers should mean that little capital expenditure will be required in the immediate future. Our projection provides for a total of $40 million to the end of the 1974-75 fiscal year, with annual expenditure running at $5 to $7 million in the last five years of the period.

Colleges of Applied Arts and Technology—Operating Costs

85. The introduction of these colleges is an innovation of major importance to education in Ontario, and it seems evident that they will develop at a rapid rate over the next decade. However, the federal government can be expected to pay close to half of the costs involved, and the impact on Ontario's provincial finances will thereby be correspondingly reduced. Parenthetically, we note that there will be a similar fortunate reduction in the effect of any error in our projections concerning these colleges. We do wish to make very clear, however, that because we are dealing with a potentially very large undertaking which is still in its initial stages, these cost projections have an unavoidable large margin of error.

86. In 1965-66, the full-time enrolment in provincial institutions such as Institutes of Technology and Institutes of Trades was 10,000 students. It is assumed that in the future such training will be provided by the new Colleges of Applied Arts and Technology and that, as mentioned above, enrolment in these colleges will reach 45,000 students by 1974-75. The operating cost per full-time student now somewhat exceeds $1,000, but fees payable by the student reduce

the cost to government to this approximate level. We assume that this per-student cost will increase by 6 per cent per annum, to $1,700 in 1974-75.

87. This calculation represents a total annual operating cost of $76 million a year by the end of our forecast period. The federal government can be expected to pay 50 per cent of the cost of vocational training, but we assume that some parts of the program of these colleges may not qualify for federal support on this basis and we have accordingly assumed that Ontario's share will be 60 per cent of the total cost. In 1974-75, this share will approximate $44 million.

Colleges of Applied Arts and Technology—Capital Costs

88. The method of projecting these costs is similar to that employed in university capital costs. We estimate the cost per place at $4,500 in 1965-66 and we assume that this figure will increase by 5 per cent per annum. As with operating costs, we have allocated 40 per cent to the federal government, leaving the provincial government to provide the remaining 60 per cent of the cost. The total capital cost to the end of the 1975 fiscal year has been projected at $275 million, of which Ontario would pay $165 million. The maximum cost in any one year, according to our calculations, is $30 million.

Debt Service Charges

89. Provincial capital grants to Ontario universities are now made by the Ontario Universities Capital Aid Corporation, which receives funds from the Province and makes loans to the universities. The universities pay interest on their accumulated debt at 5½ per cent per annum and repay annually one-thirtieth of

TABLE 6:9

COSTS TO THE GOVERNMENT OF ONTARIO OF POST-SECONDARY EDUCATION

	*1964**	*1970*	*1975*
	(millions of dollars)		
Current			
Universities	36	153	328
Teachers' Colleges	4	9	18
Technical, vocational and other post-secondary education	4	17	44
Total Current Cost	44	179	390
Capital			
Universities (including residences)	36	103	130
Teachers' Colleges	—	5	7
Technical, vocational and other post-secondary education	1	20	30
Total Capital Cost	37	128	167
Total Cost	81	307	557
Teachers' Superannuation (not included above)	21	50	65
Debt Service Grants (not included above)	—	42	74

*Fiscal years.

the capital amount of any grant, for thirty years. The Province, in determining operating grants for the universities, includes an amount to provide for the debt service charges, i.e., interest plus principal repayments. While this arrangement makes it possible for the Province to treat capital grants to universities as capital loans rather than current expenditure, it affects the form rather than the substance of provincial capital aid to universities.

90. Our projections show that by the end of 1974-75, the accumulated debt owed by the universities to the Province will be $952 million. In that fiscal year, total debt service payments will be $74 million, comprising $46 million interest and $28 million debt repayment.

Cost Implications of Some Possible Changes in the System of Education

91. Our projections have been made on the assumption that arrangements now in existence, or policies already announced by the government, will remain in effect throughout the period. This assumption, while necessary, is probably not entirely realistic, and we therefore wish to consider briefly the implications for our projections of two mooted changes which may quite possibly occur before 1975. The first is that the present Grade 13 may not be in existence in ten years' time, and the second is that a university degree may be required for newly-qualifying elementary school teachers before 1975. The effects of such changes on our projections of cost seem unlikely to be very great.

92. The reduction of the high school program from five years to four will reduce the costs to the secondary school system below what they would have been if this reduction had not occurred. On the other hand, the costs of post-secondary education will tend to be increased, to the extent that more students than would otherwise have done so undertake such education, or to the extent that students require longer to complete a given post-secondary educational program if the high school course is reduced to four years. If students go to Colleges of Applied Arts and Technology for an added year, the net cost to the provincial and municipal governments would probably be less than if they remained in high school for another year. The total cost of a year at a College of Applied Arts and Technology would probably be greater than that of a year in the present Grade 13, but after allowance for the fees paid by the student and for the federal grant, the net cost to the provincial government and the school boards would almost certainly be less.

93. It is probable, however, that most students who would be completing the present Grade 13 would plan to enter university. Here several possible cost implications require consideration. First, more students may enter university if the high school program is only four years. However, we have allowed in our projection both for a higher retention rate in high school and for a larger proportion of students continuing on to university. We think that our projections of the number of students who will enter university would not have been much higher had we assumed a four-year high school preparation for university. Second, the shorter high school course might entail a longer university course. If the reduction of one year in the high school course required the addition of one year to each university

course, university costs would clearly be increased. The increase would nevertheless be not as great as might first appear. The difference between the cost of a year in Grade 13 and of an additional year at the beginning of a university course is much less than the difference between the *average* cost of a university year and the *average* cost of a high school year. Moreover, because we are concerned here with the cost to public authorities, we must consider the effect of students' fees in reducing this cost. If the reduction in the length of the high school course does not lead to an equivalent increase in the length of university courses, any net increase in the cost of education would appear not to be great.

94. In summary, we believe that if the high school program were reduced to four years, the net increase to the various public authorities in the cost of providing education would not be very great. It is even possible that the cost would be lower than if the present five-year program is retained.

95. The second possible change in educational policy is that elementary school teachers' qualifications will include a university degree. Should this occur, economies would arise from the fact that the present Teachers' Colleges would probably be incorporated into the university system. In the new system students might be required to have a four-year high school course plus a three-year university course, in order to qualify as elementary school teachers. At present, the requirement involves a five-year high school course plus one year at Teachers' College. The new system would require one additional year and total costs would therefore rise. We must, however, take into account the fees paid by university students (fees are not charged at Teachers' Colleges or at high schools), a circumstance that substantially changes the cost picture. Moreover, if a university degree were required for an elementary school teacher's certificate, it is probable that some students would take the course for teachers who would not otherwise have done so. On balance, we would expect that this change would at most occasion only a slight increase in teacher training costs. It would, however, be necessary to increase the total amount of scholarship and bursary aid, and, possibly more important from the standpoint of cost, the average salary for elementary school teachers would be increased if a university degree were required.

96. The effect on capital costs of a shortened secondary school course and of university training for elementary teachers also requires consideration. Economies would be realized in that high school and Teachers' College facilities, both present and projected, would in many localities be used by universities. There would nevertheless still be some need for additional capital expenditures by the educational system as a whole. We have already noted that in our projection of university capital expenditure, allowance has been made for a limited increase of university places beyond the projected student enrolment. Possibly this modest excess could be somewhat reduced if the changes we have mentioned were to be introduced.

97. Our conclusion, then, is that the introduction of the foregoing changes would on balance probably increase slightly both the operating costs and the capital costs of education to the public authorities. But if we had made our projections on the assumption that both of these changes were to be made, we think that they

would not have been increased by any large proportion. We are of the opinion that the increase would not have exceeded 10 per cent, and we regard 5 per cent as a much better estimate of its magnitude. Thus, while our projections have been made in the light of the present form of the educational system, we think that their general validity would not be very greatly affected by the two major changes that now seem most likely to be introduced in the period with which we are concerned.

HIGHWAYS AND ROADS

98. In the past, provincial expenditure on highways, including grants to municipalities for roads, streets and related items, has corresponded closely to the revenue from the gasoline tax and from motor vehicle licences and permits. For the 1967 fiscal year, this expenditure, as forecast in the 1966 Budget papers, amounted to 109 per cent of such revenue. By coincidence, this ratio represents the average for the fiscal years 1958-59 to 1965-66. Consequently, on the basis of our projections of annual gasoline tax and motor vehicle revenues, we project 109 per cent of these amounts in each year as representing total provincial expenditure, in constant dollars, on highways and roads.

TABLE 6:10

GOVERNMENT OF ONTARIO EXPENDITURES ON HIGHWAYS AND ROADS

	1964	*1970*	*1975*	*1975 as a percentage of 1964*
	(millions of dollars)			
Provincial Expenditure on Current Account				
Expenditure on own account	49	67	81	165%
Grants to municipalities re current expenditure on roads, streets, etc.	33	47	61	185
Total Current Account Expenditure	82	114	142	173
Provincial Expenditure on Capital Account				
Expenditure on own account	143	224	306	214
Grants to municipalities re capital expenditure on roads, streets, etc.	55	90	126	229
Total Capital Account Expenditure	198	314	432	218
Total Expenditure	280	428	574	205%

99. This projection of expenditure is in effect in constant dollars, because the revenue to which it relates is based on the physical quantity of gasoline on which tax is collected and on the number of all licensed motor vehicles. But whereas the bases of the gasoline tax and motor vehicle licences do not increase with the price level, the cost of building and repairing highways and roads is directly affected by price level changes. In the past, the Province has met this situation by increasing its rates of tax from time to time. Because we have assumed throughout our projections that tax rates remain unchanged, it is apparent that, in conjunction with continuing increases in highway construction costs, the projected gasoline and

motor vehicle revenue is unlikely to be sufficient to come within 9 per cent of the expenditures involved. To meet this problem, we have assumed that general road costs will rise by the 2 per cent per annum that we have projected for other costs and we have combined this factor with our 109 per cent of projected revenue to arrive at the figure for total spending by the Province on highways and related services.

100. We have broken down the resulting aggregate into its current and capital components, and we have in turn subdivided these components into direct provincial expenditure and provincial grants to municipalities. These allocations are based on the proportions in which aggregate highways expenditure has been divided among these four categories in the recent past, modified in the light of advice provided by the Ontario Department of Highways. In general, while we have introduced no sharp changes in the proportions, our projection displays a tendency toward a somewhat larger proportion of expenditure on capital account, both for the Province's own purposes and in its grants to municipalities.

HEALTH

101. Three categories of provincial health expenditure require individual attention: the government contribution to the Ontario Hospital Care Insurance Plan, the operating and maintenance costs of Ontario Hospitals, and subsidies for the premiums of low-income participants in the Ontario Medical Services Insurance Plan.

Provincial Contributions to the Ontario Hospital Services Commission

102. In the three fiscal years 1965 to 1967, Ontario government contributions plus individual premiums have averaged 59 per cent of the total expenditures of the Ontario Hospital Services Commission. We have examined an Ontario Hospital Services Commission projection of total expenditure to the end of 1971 and, after extrapolating it to the end of our forecast period, have adopted it for our purposes. We have assumed that, in line with recent experience, the sum of provincial contributions plus individual premiums will cover 60 per cent of the total expenditure of the Ontario Hospital Services Commission. In 1964, the individual premium rate was increased so that premiums would cover about 40 per cent of total cost, rather than the slightly less than 30 per cent covered at the former premium level.

103. We further assume that premiums will again be increased to maintain this 40 per cent share whenever Ontario Hospital Services Commission premium income falls below a 35 per cent ratio. This policy implies further increases in 1970 and again in 1974. The remaining share of the 60 per cent of Ontario Hospital Services Commission total expenditure will continue to be covered by contributions from the provincial government which, according to our projection, will amount to $100 million in 1970 and $141 million in 1975. Included in these provincial contributions are capital grants for hospital construction, which were $12 million in 1964 and averaged $16 million per annum in the four years ending 1967. We have projected these capital grants at $22 million in 1970 and at $27 million in 1975.

TABLE 6:11

GOVERNMENT OF ONTARIO EXPENDITURES ON HOSPITALS AND HEALTH—MAJOR ITEMS

	1964	*1970*	*1975*	*1975 as a percentage of 1964*
	(millions of dollars)			
Provincial contributions to Ontario Hospital Services Commission*	45	100	141	313%
Ontario Hospitals—operation and maintenance	61	102	146	239
Premium subsidies—Ontario Medical Services Insurance Plan	—	99	145	—
Total	106	301	432	408%

*Includes grants for hospital construction of $12 million in 1964, $22 million in 1970 and $27 million in 1975.

Operation and Maintenance of Ontario Hospitals

104. In the past five years, the rate of increase in provincial operating and maintenance grants to Ontario Hospitals has been very slightly less than the rate of increase in expenditures by the Ontario Hospital Services Commission. We would have projected the same rate of increase for Ontario Hospitals as for the Ontario Hospital Services Commission except for the fact that the Province now proposes to provide more mental health care in local general hospitals. This will involve some increase in the cost of such care and we have consequently provided for a somewhat more rapid rate of increase in provincial expenditure on mental health than for the Ontario Hospital Services Commission. Operating and maintenance expenditure of Ontario Hospitals was $61 million in 1964; our projected figure for the comparable expenditure, whether in Ontario Hospitals or elsewhere, is $146 million in 1975.

105. Considering the actual and projected provincial contributions to the Ontario Hospital Services Commission, plus the operation and maintenance of Ontario Hospitals, we find that these expenditures will average 35 per cent of the total cost of these two services from 1964 to 1975. This proportion is very close to the one-third which the Provincial Treasurer, in his 1964 Budget Speech, indicated to be the approximate proportion which the provincial government believed that it should contribute. Our projection is therefore in line both with past trends and with present government policy.

106. The Ontario Medical Services Insurance Plan came into effect on July 1, 1966. Under this plan, provision has been made to cover from public funds part or all of the premiums payable by those members with low incomes and for those receiving welfare assistance. The government has estimated the cost of premium assistance from July 1, 1966, to March 31, 1967, as $58.9 million, a figure that corresponds to some $78 million for a full fiscal year. We have provided, in our projection, for an increase in the number of those persons who will receive premium assistance as provincial population increases, and we have also provided for an

increase in premium levels, at the rate of 6 per cent per annum. The projected cost to the Province for this premium assistance is $145 million in 1975.

CONSTRUCTION OF PUBLIC BUILDINGS

107. This item has varied greatly from year to year. The provincial estimates indicate a figure of $41 million for 1967 and we assume a subsequent increase of 5 per cent per year, a rate in line with past experience. Our projected expenditure is $60 million in 1975.

OTHER CAPITAL EXPENDITURE

108. The major components of this relatively small outlay are capital expenditures for provincial parks and for conservation. Total outlays have averaged some $10 million in recent years and have been increasing relatively rapidly. We are projecting a continuing rapid increase to $39 million in 1975.

OTHER CURRENT EXPENDITURE

109. This is a residual category that includes all items of current expenditure not projected individually, except interest on the provincial debt. Apart from most of the costs of general provincial administration, this category embraces many smaller individual items of expenditure which it is neither feasible nor necessary to project individually.

110. Our procedure in projecting the total of residual expenditures was to examine the historical record back to 1960 for several of the larger individual items not affected by major policy changes during the period analysed. The total for these selected items was found to have increased at an average annual rate of just under 8 per cent between 1960 and 1967.

111. This rate of increase seems reasonable in the light of more general considerations. A large share of residual expenditures represents salaries, and here we expect an average increase of from 4 to 5 per cent per annum. We have assumed that other costs will increase by 2 per cent annually, so that the weighted average annual increase in the relevant price level (since wages and salaries represent the major share of the total) would appear to be from 3½ to 4 per cent. In addition, the Ontario population is expected to grow at about 2 per cent per annum. Provision must also be made for minor but, given our underlying assumptions, not for major extensions and modifications in existing programs. Finally, we must allow for the "improvement factor" in public services, which we view as the counterpart of a rising average standard of consumption in the private sector of the economy. When all of these factors are taken into account, and some allowance made for overlapping, it appears that an average rate of increase of from 7 to 8 per cent would be expected. We have therefore made our projection on the assumption that residual items of expenditure on current account will increase at a rate of 8 per cent a year, from a 1967 total of $432 million to $800 million in 1975.

GRANTS TO MUNICIPALITIES AND SCHOOL BOARDS

112. We have already projected the amount of these grants, from the income side, in our analysis of municipal and school board revenues. The same projections

have been adjusted to a provincial fiscal year basis to provide us with the trend of annual provincial expenditures on these grants.

PROJECTION OF PROVINCIAL BUDGETARY AND DEBT POSITION

113. In Table 6:12 we have brought together, for selected fiscal years, our projections of revenue, expenditure and debt. The structure of this Table parallels that of Table 6:6, which provides comparable information for local governments.

TABLE 6:12

BUDGETARY AND DEBT POSITION OF THE GOVERNMENT OF ONTARIO

		1964	*1970*	*1975*	*1975 as a percentage of 1964*
		(millions of dollars)			
	Revenue				
1.	Provincial net ordinary revenue	1,079	1,961	2,650	246%
2.	Debt service payments from universities	—	42	74	—
3.	Total	1,079	2,003	2,724	252
	Current Expenditure				
4.	Ordinary expenditure (excluding interest payments and transfers to local governments)	450	1,161	1,815	403
5.	Transfers to local governments re: expenditure on current account	296	547	784	265
6.	Interest	61	119	275	451
7.	Total Current Account Expenditure	807	1,827	2,874	356
8.	Surplus on Current Account	272	176	−150	
	Capital Expenditure				
9.	Capital expenditure (excluding transfers to local governments)	227	442	599	264
10.	Transfers to local governments re: expenditure on capital account	106	177	249	235
11.	Total Capital Account Expenditure	333	619	848	255
12.	Deficit (= increase in debt)	61	443	998	
13.	Net Capital Debt at end of period*	1,345	2,898	6,575	489
14.	Provincial Domestic Product (nearest calendar year)	15,600	22,200	30,000	192
15.	Net Capital Debt as percentage of P. D. P.	8.6%	13.1%	21.9%	

*Includes $559 million in 1970 and $952 million in 1975 owing by universities to Ontario Universities Capital Aid Corporation.

114. The most striking feature of Table 6:12 is the very large projected increase in the net capital debt of the Province. More detailed figures provided in the Appendix to this chapter reveal that within less than a decade, from 1967 to 1975, a four-fold increase will have occurred. In recent years this debt has ranged from 8 to 9 per cent of provincial domestic product, but our figures show this ratio

increasing to almost 22 per cent by the end of the forecast period. Moreover, the trend of this debt ratio shows no tendency to flatten out in the later years with which we deal; on the contrary, an extrapolation of the trend projected for the early 1970's indicates that the ratio will reach 30 per cent as early as 1979.

115. Three factors may be mentioned as responsible for the projected increase in provincial debt. The first is the general circumstance that the provincial government sector is expected to grow faster than the Ontario economy as a whole. Hence even if, contrary to our expectation, projected provincial revenues were to grow at the same rate as expenditures, an increasing burden of debt would be indicated.

116. The second consideration is that we have in fact projected a relatively more rapid rate of growth in total expenditure than in total revenue. Every major category of expenditure shown, with the exception of grants to municipalities for capital purposes, increases relatively more rapidly than total provincial revenue. While in most categories this discrepancy in growth rates is slight, the major exception is to be found in the current expenditure item (exclusive of interest and of transfers to local governments) shown in line 4 of Table 6:12. This is the largest single category of provincial expenditure and it increases more than four-fold during the period of our projection. The major components which account for this rapid rate of increase are outlays for post-secondary education, expected to increase seven-fold, and those for health, for which a four-fold increase is expected.

117. Finally, increased debt leads to an increase in interest charges. Projected total interest charges during the period are approximately $1,600 million, about $850 million greater than would have resulted had the annual interest charge remained at the 1964 level throughout the period. The additional $850 million in interest payments in effect increases the total accumulated debt at the end of the period by the same amount.

118. In summary, if present trends continue, the net capital debt of the Province can be expected to increase very rapidly in the coming decade, both absolutely and as a proportion of provincial domestic product. In this context, it is relevant to consider the present and projected position of Ontario's debt in relation to earlier experience. At the end of the 1920's, the burden of the Province's debt was an estimated 9 per cent of P.D.P. The debt increased rapidly during the depressed 1930's, and by the end of that decade the burden had grown to 24 per cent of P.D.P. It may therefore be observed that while the present debt ratio is at about the level of the late 1920's, the projected ratio in 1975 will have risen to the approximate level of the late 1930's. It may be said of such a debt ratio that not only would it be historically very high in terms of Ontario experience, but that it would continue to rise rapidly beyond 1975, if present trends continue.

119. We wish to offer a concluding word to explain why we have chosen to use the "net capital debt" rather than the "gross debt" of the Province in our analysis. The major difference between these concepts is that the gross debt includes "revenue-producing and realizable assets" while net debt excludes these

items. In measuring burden, net capital debt seems to us to be preferable, but it may be argued that because the Province must pay interest on its gross debt, our procedure may underestimate future interest charges if the gross debt increases faster than the net debt. The interest figures we have used to the end of 1967 represent either the actual net interest cost to the Province or a very close estimate. Thereafter, our procedure involves the assumption that increases in "revenue-producing and realizable assets" will generate enough income to pay the interest charges to which such increases give rise. This seems a reasonable assumption which, even if not strictly borne out in fact, is nevertheless most unlikely to introduce any significant error into our projection.

COMBINED PROVINCIAL AND LOCAL BUDGETARY AND DEBT POSITION

120. In Table 6:13 we show, for selected years, combined revenue, expenditure and debt figures for the provincial and local governments. There are some technical difficulties about combining the figures when the fiscal years are different for the two levels of government, but to discuss this matter fully would be both tedious and unnecessary. Any apparent discrepancies are small and have no effect on the general trends revealed in the Table.

TABLE 6:13

COMBINED PROVINCIAL AND LOCAL GOVERNMENT BUDGETARY AND DEBT POSITION

	Calendar year or nearest fiscal year			*1974 as a percentage of 1963*
	1963	*1969*	*1974*	
	(millions of dollars)			
Revenue				
1. Current revenue (including debt service payments from universities)	1,909	3,306	4,631	243%
Expenditure				
2. Expenditure on current account (excluding interest)	1,416	2,735	4,056	286
3. Interest	126	229	429	340
4. Total Current Account Expenditure	1,542	2,964	4,485	291
5. Surplus on Current Account	367	342	146	40
6. Expenditure on Capital Account	525	942	1,318	251
7. Deficit (= increase in net debt)	158	600	1,172	742
8. Total Accumulated Net Debt	2,844	5,278	9,819	345
9. Estimated separate school net debt	133	190	247	186
10. Total Net Debt less separate school net debt*	2,711	5,088	9,572	353
11. Provincial Domestic Product	15,600	22,200	30,000	192
12. Debt (line 10) as percentage of P.D.P.	17.4%	22.9%	31.9%	

*Includes $559 million in 1969 and $952 million in 1974 owing by universities to Ontario Universities Capital Aid Corporation.

121. The fact that the figures in Table 6:13 do not include transfers between the two levels of government enables us to see the total projected actual cost of carrying out various expenditure programs and the total revenue available to finance these programs. Eliminating the complications arising from intergovernmental transfers enables the reader to come more closely to grips with the fundamentals of the fiscal position.

122. The combined provincial-local Table does not add a great deal to the information already provided in Tables 6:6 and 6:12. We note that in the combined Table, 6:13, total revenue rises more rapidly than P.D.P., but expenditure in turn rises more rapidly than revenue. The rise in expenditure on current account is particularly striking, just as it was for the provincial government. The net result is a series of continuously rising annual deficits, augmented by the compounding effect of related interest payments and reflected in the very rapid growth of accumulated debt, both absolutely and in relation to P.D.P. By 1974, our figures show debt increasing by almost $1,200 million a year; total debt is about 3½ times the 1963 level and the ratio of debt to P.D.P. will have almost doubled over the period.

123. While the projected ratio of debt to P.D.P. in 1974 is approximately that of 1939, the fact that the trend continues strongly upward in subsequent years indicates, as we have already pointed out, that the projected fiscal position is not viable for the longer term. To illustrate this point, we have developed in Chapter 40 the dimensions of the annual revenue gaps that would need to be filled, if the growth in the combined provincial-local debt were to be confined to the projected rate of growth in the P.D.P. Given such a policy of stabilizing the burden of debt at its present ratio, our projection indicates that the annual combined revenue gap for the two levels of government would in 1969 amount to almost $400 million and in 1975 to some $800 million. Had we extended our projection further into the future, there is every indication that this gap would have continued to increase.

CONCLUSION

124. In explaining the various projections developed in the Appendix and presented in this chapter, we have become unavoidably involved in much detail. We think it appropriate to conclude this presentation with some rather general observations about the basic assumptions and techniques that we have employed in determining and analysing the evolving fiscal positions of the provisional and municipal governments in Ontario during the forthcoming decade.

125. Central to our whole analysis are our projections of the population, labour force and domestic product of the Province of Ontario. We believe that these are the best projections that can be made, but inevitably they will be proved wrong and we think that they are as likely to be too high as too low. If our projections are found, in the event, to be too low, then actual revenues at given rates of tax will be higher than those projected. But this upward influence will also be felt in expenditure. On balance, we would expect that if actual popula-

tion, labour force and production are higher than we have projected, the net effect on the government's budgets would tend to be favourable but not pronounced. The opposite conclusion would apply if our projection is found to be too high.

126. In our projections of revenue we have generally assumed the continuation of present taxes and rates, except for the municipal real property and business tax and the Ontario Hospital Services Commission premiums. Assuming that our P.D.P. projection is correct (and we have already considered the effects of possible error), we think that our revenue projections are subject to no very large margin of error.

127. The determination of future trends in government expenditures is considerably more difficult, but here again we have tried to anchor our projections as firmly as possible to present conditions, past experience, and the expected course of future developments. In general, we have tended to project the costs of existing government services in such a manner as to make some provision for the introduction of minor new expenditures during the period. We have explicitly excluded any provision for the costs of major new programs that are not now a part of publicly announced government policy.

128. To sum up, our projections lead us to the clear and inescapable conclusion that in the absence of remedial measures, the present unsatisfactory revenue and spending positions of the provincial and local governments of Ontario will deteriorate sharply and continuously within the coming decade. While we recognize the inevitability of errors in our projections, we think that their effect cannot be to alter substantially the fiscal trends that we foresee. Moreover, any errors that we have made are as likely to aggravate the fiscal situation as to improve it. The concrete problem that emerges is that of determining the most appropriate means of financing a combined provincial-local expenditure-revenue gap which will have grown to some $600 million annually by 1969 and to more than $1,300 million by 1975, just to finance existing programs. To the extent that major new programs are introduced, the projected gap will be correspondingly increased. Faced with such a prospect, the government of Ontario may be expected to seek a greater share of revenue from what are now federal sources of income. In coping with the remaining revenue gap, the Province will need to consider to what extent it may wish to modify the projected level of its public expenditures and to what degree it will rely on taxation and on borrowing to meet its financial requirements. Given the terms of reference of this Committee, we confine our analyses and recommendations to the areas of taxation and borrowing.

Appendix to Chapter 6

DETAILED PROJECTIONS

The following Tables set out in full detail the information shown in summary form in the Tables of Chapter 6.

TABLE 6:14

PROJECTED GROWTH OF POPULATION, LABOUR FORCE, EMPLOYMENT AND PROVINCIAL DOMESTIC PRODUCT FOR ONTARIO
1963-74

	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*
	(*actual*)	(*actual*)	*	**	**	**						
1. Population (thousands)	6,448	6,586	6,731	6,832	6,965	7,103	7,246	7,394	7,549	7,710	7,878	8,054
2. Labour force (thousands)	2,476	2,556	2,614	2,675	2,710	2,755	2,805	2,867	2,926	2,988	3,052	3,116
3. Number employed (thousands)	2,382	2,473	2,548	2,615	2,640	2,664	2,693	2,752	2,809	2,868	2,930	2,991
4. Provincial Domestic Product in 1963 dollars (billions)	$15.6	16.6	17.5	18.3	18.9	19.3	19.7	20.5	21.3	22.3	23.2	24.2
5. Provincial Domestic Product in current dollars (billions)	$15.6	17.0	18.5	20.0	21.0	21.6	22.2	23.6	25.0	26.6	28.3	30.0

* Population, labour force and employment figures for 1965 are actual. Provincial Domestic Product figures are estimates derived from data provided by the Department of Economics and Development.

** The actual 1964 and 1965 figures for each series in this Table are somewhat higher than those in our projection because of the very high level of economic activity in those years. Consequently, for reasons explained more fully in Chapter 6, we have used interpolation to arrive at the figures above for 1966, 1967 and 1968. For 1969 and subsequent years, all figures are taken from our projections.

TABLE 6:15

MUNICIPAL CURRENT REVENUES

1963-74

(*Excluding grants from Province*)

	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*
	(*actual*)	(*preliminary*)				(*millions of dollars*)						
Property and business taxes	744	802	860	932	1,007	1,099	1,186	1,282	1,387	1,495	1,620	1,748
Federal subsidies, and grants in lieu of taxes	18	19	20	21	23	24	26	28	29	31	33	34
Other current revenues	68	70	68	74	79	85	91	97	104	111	118	125
Total Current Revenues	830	891	948	1,027	1,109	1,208	1,303	1,407	1,520	1,637	1,771	1,907

TABLE 6:16

EXPENDITURE BY ELEMENTARY AND SECONDARY SCHOOL BOARDS

1963-74

	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*
	(*actual*)	(*actual*)										
Elementary School Boards												
Number of pupils (thousands)	1,233	1,278	1,305	1,334	1,358	1,383	1,406	1,429	1,453	1,480	1,507	1,537
Current operating cost (millions)	$295	323	348	375	402	432	464	497	533	573	616	662
Capital outlays for new places and replacement of existing places (millions)	$ 41	71	53	51	54	54	57	59	65	68	74	77
Total Elementary Expenditure	$336	394	401	426	456	486	521	556	598	641	690	739
Secondary School Boards												
Number of pupils (thousands)	364	395	426	452	474	492	507	521	535	548	562	577
Current operating cost (millions)	$180	213	238	271	304	334	365	395	426	460	496	535
Capital outlays for new places and replacement of existing places (millions)*	$ 17	43	56	49	43	38	38	39	39	43	47	51
Total Secondary Expenditure	$197	256	294	320	347	372	403	434	465	503	543	586
Total School Board Expenditure	$533	650	695	746	803	858	924	990	1,063	1,144	1,233	1,325

* Includes outlays for new places and replacement of existing facilities. Federal grants for the construction of vocational schools are not included in these figures.

TABLE 6:17

MUNICIPAL CURRENT AND CAPITAL EXPENDITURE*

1963-74

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Current Expenditure	(actual)					(millions of dollars)						
Public works	133	139	149	162	179	191	200	213	230	242	255	264
Health	17	20	22	24	26	28	30	32	35	39	43	47
Other	341	364	391	419	449	481	515	552	593	636	683	733
Total Current Expenditure	491	523	562	605	654	700	745	797	858	917	981	1,044
Capital Expenditure												
Public works	134	153	165	184	202	214	226	253	266	280	303	322
Sanitation	57	63	69	75	81	89	98	107	116	128	139	153
Health	5	8	10	11	13	15	16	18	20	21	23	25
Other	28	28	42	43	46	49	53	56	60	64	69	73
Total Capital Expenditure	224	252	286	313	342	367	393	434	462	493	534	573
Total Municipal Expenditure	715	775	848	918	996	1,067	1,138	1,231	1,320	1,410	1,515	1,617

*Expenditures for education and for interest on debt are not included in this Table. For information on these items, see Table 6:3 and Table 6:6.

TABLE 6:18

LOCAL GOVERNMENT GRANTS RECEIVED FROM THE PROVINCE

1963-74

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Current Account Grants						(millions of dollars)						
Education	193	241	276	323	345	367	388	418	449	483	520	560
Public works	32	34	36	41	44	45	46	49	52	55	59	61
Other current	58	61	73	84	89	96	102	110	118	128	133	149
Total Current Grants	283	336	385	448	478	508	536	577	619	666	717	770
Capital and Debt Service Grants												
Education	36	44	49	49	57	59	61	64	69	74	78	84
Public works	53	61	68	72	80	85	89	94	100	108	117	124
Other capital	14	15	18	21	22	24	26	28	30	32	34	37
Total Capital Grants	103	120	135	142	159	168	176	186	199	214	229	245
Total Grants	386	456	520	590	637	676	712	763	818	880	946	1,015

TABLE 6:19

BUDGETARY AND DEBT POSITION OF LOCAL GOVERNMENTS
1963-74

		1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
							(millions of dollars)						
Revenue													
1.	Local government current revenues	830	891	948	1,027	1,109	1,208	1,303	1,407	1,520	1,637	1,771	1,907
2.	Grants from Province for current purposes	283	336	385	448	478	508	536	577	619	666	717	770
3.	Total Revenue on Current Account	1,113	1,227	1,333	1,475	1,587	1,716	1,839	1,984	2,139	2,303	2,488	2,677
Current Expenditure													
4.	Expenditures on current account (excluding interest)	966	1,059	1,148	1,251	1,360	1,466	1,574	1,689	1,817	1,950	2,093	2,241
5.	Interest	65	70	78	86	94	102	110	118	127	136	145	154
6.	Total Expenditure on Current Account	1,031	1,129	1,226	1,337	1,454	1,568	1,684	1,807	1,944	2,086	2,238	2,395
7.	Surplus on Current Account	82	98	107	138	133	148	155	177	195	217	250	282
Capital Expenditure													
8.	Expenditures on capital account	282	366	395	413	439	459	488	532	566	604	655	701
9.	Less provincial grants for capital purposes	103	120	135	142	159	168	176	186	199	214	229	245
10.	Capital Expenditure Net of Grants	179	246	260	271	280	291	312	346	367	390	426	456
11.	Deficit (=increase in debt)	97	148	153	133	147	143	157	169	172	173	176	174
12.	Net debt outstanding (December 31)	1,499	1,647	1,800	1,933	2,080	2,223	2,380	2,549	2,721	2,894	3,070	3,244
13.	Estimated separate school net debt	133	144	153	162	171	180	190	200	211	222	234	247
14.	Net debt outstanding (excluding separate school net debt)	1,366	1,503	1,647	1,771	1,909	2,043	2,190	2,349	2,510	2,672	2,836	2,997
15.	Provincial Domestic Product	15,600	17,000	18,500	20,000	21,000	21,600	22,200	23,600	25,000	26,600	28,300	30,000
16.	Debt (line 14) as percentage of P.D.P.	8.8%	8.8	8.9	8.9	9.1	9.5	9.9	10.0	10.0	10.0	10.0	10.0

TABLE 6:20

NET ORDINARY REVENUES OF THE GOVERNMENT OF ONTARIO

Fiscal years 1964-75

	1964 (actual)	*1965* (actual)	*1966* (preliminary)	*1967* (budget forecast)	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
					(millions of dollars)							
Personal income tax	164	196	290	362	384	402	428	471	500	530	580	635
Corporations tax	210	233	244	258	284	292	300	319	338	359	382	405
Gasoline tax	184	221	232	257	264	270	276	287	298	312	325	337
Retail sales tax	187	195	216	383	410	421	433	460	488	519	552	585
Succession duty	44	49	52	55	60	62	63	67	71	76	81	86
Motor vehicle permits, etc.	76	81	84	86	87	91	94	98	102	105	109	113
Liquor Control Board of Ontario	97	113	119	133	141	145	149	158	168	178	190	201
Share of federal estate tax	—	15	17	17	20	21	21	22	24	25	27	29
Other ordinary revenue	117	134	143	176	181	187	197	208	220	232	246	259
Total Net Ordinary Revenue	1,079	1,237	1,397	1,727	1,831	1,891	1,961	2,090	2,209	2,336	2,492	2,650

TABLE 6:21

DISTRIBUTION OF POST-SECONDARY STUDENTS IN ONTARIO

Academic years beginning September, 1965-74

	1965	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*
					(thousands of students)					
University (undergraduate)	44	52	61	71	80	87	94	101	106	110
Teachers' Colleges	6	7	7	7	8	8	8	9	9	10
Technical and vocational	10	13	16	18	22	26	28	32	38	45
Total	60	72	84	96	110	121	130	142	153	165
Graduate	7	8	9	11	13	14	15	17	18	20
Total Post-Secondary Students	67	80	93	107	123	135	145	159	171	185

TABLE 6:22

COSTS TO THE GOVERNMENT OF ONTARIO OF POST-SECONDARY EDUCATION

Fiscal years 1964-75

	1964	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
	(actual)	*(actual)*	*(prelim-inary)*	*(budget forecast)*								
					(millions of dollars)							
Current												
Universities	36	47	65	82	102	126	153	183	216	252	288	328
Teachers' Colleges	4	5	6	7	7	8	9	10	12	14	16	18
Technical, vocational and other post-secondary education	4	5	7	9	11	13	17	21	25	29	36	44
Total Current Cost	44	57	78	98	120	147	179	214	253	295	340	390
Capital												
Universities (including residences)	36	46	87	152	112	102	103	103	104	83	93	130
Teachers' Colleges	*	*	*	*	1	3	5	5	6	6	7	7
Technical, vocational and other post-secondary education	1	1	1	12	15	20	20	10	10	20	25	30
Total Capital Cost	37	47	88	164	128	125	128	118	120	109	125	167
Total Cost	81	104	166	262	248	272	307	332	373	404	465	557
Teachers' Superannuation (not included above)	21	22	40	42	45	47	50	52	55	58	62	65
Debt Service Grants (not included above)	—	—	3	9	26	34	42	48	56	63	68	74

*less than $500,000

TABLE 6:23

GOVERNMENT OF ONTARIO EXPENDITURES ON HIGHWAYS AND ROADS

Fiscal years 1964-75

	1964 (actual)	1965 (actual)	1966 (preliminary)	1967 (budget forecast)	1968	1969	1970	1971	1972	1973	1974	1975
					(millions of dollars)							
Provincial Expenditure on Current Account												
Expenditure on own account	49	55	58	65	66	66	67	68	72	75	76	81
Grants to municipalities re current expenditure on roads, streets, etc.	33	34	37	43	44	45	47	50	53	56	60	61
Total Current Account Expenditure	82	89	95	108	110	111	114	118	125	131	136	142
Provincial Expenditure on Capital Account												
Expenditure on own account	143	147	171	191	199	212	224	241	255	271	288	306
Grants to municipalities re capital expenditure on roads, streets, etc.	55	63	70	74	82	86	90	96	101	110	119	126
Total Capital Account Expenditure	198	210	241	265	281	298	314	337	356	381	407	432
Total Expenditure	280	299	336	373	391	409	428	455	481	512	543	574

TABLE 6:24

GOVERNMENT OF ONTARIO EXPENDITURES ON HOSPITALS AND HEALTH—MAJOR ITEMS

Fiscal years 1964-75

	1964 (actual)	1965 (actual)	1966 (preliminary)	1967 (budget forecast)	1968	1969	1970	1971	1972	1973	1974	1975
					(millions of dollars)							
Current Account Expenditure												
Provincial contributions to Ontario Hospital Services Commission*	33	61	53	53	83	99	78	89	106	122	100	114
Ontario Hospitals—operation and maintenance	61	64	75	80	88	95	102	109	117	125	133	146
Premium subsidies—Ontario Medical Services Insurance Plan	—	—	—	59	85	92	99	107	115	124	134	145
Total Current Account	94	125	128	192	256	286	279	305	338	371	367	405
Capital Account Expenditure												
Grants for hospital construction	12	12	16	24	20	21	22	23	24	25	26	27
Total Expenditure	106	137	144	216	276	307	301	328	362	396	393	432

*Excluding grants for hospital construction

TABLE 6:25

OTHER GOVERNMENT OF ONTARIO EXPENDITURES (ITEMS NOT INCLUDED IN TABLES 6:9, 6:10, AND 6:11)

Fiscal years 1964-75

	1964	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
	(actual)	*(actual)*	*(preliminary)*	*(budget forecast)*								
	(millions of dollars)											
Other Non-Transfer Expenditures												
Current expenditures not included elsewhere.	242	258	339	432	467	504	544	588	635	676	742	800
Construction of public buildings...........	29	36	42	41	43	45	47	49	51	54	57	60
Other capital expenditures................	6	9	15	14	16	18	21	24	27	31	35	39
Total Other Non-transfer Expenditure......	277	303	396	487	526	567	612	661	713	761	834	899
Other Grants to Local Governments												
Legislative grants for education for current operations.........................	205	250	290	339	350	372	396	426	457	492	530	571
Other grants for current expenditure.......	58	61	77	86	90	97	104	112	121	130	141	152
Legislative grants for education—on capital and debt service account..............	36	49	49	52	58	60	61	65	71	75	80	85
Other grants for capital expenditure........	15	16	19	22	23	24	26	28	30	33	35	38
Total Other Grants to Local Governments..	314	376	435	499	521	553	587	631	679	730	786	846
Total Other Provincial Expenditure...........	591	679	831	986	1,047	1,120	1,199	1,292	1,392	1,491	1,620	1,745

TABLE 6:26

BUDGETARY AND DEBT POSITION OF THE GOVERNMENT OF ONTARIO

Fiscal years 1964-75

	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
	(actual)	(actual)	(preliminary)	(budget forecast)								
	(millions of dollars)											
Revenue												
1. Provincial net ordinary revenue	1,079	1,237	1,397	1,727	1,831	1,891	1,961	2,090	2,209	2,336	2,492	2,650
2. Debt service payments from universities	—	—	3	9	26	34	42	48	56	63	68	74
3. Total	1,079	1,237	1,400	1,736	1,857	1,925	2,003	2,138	2,265	2,399	2,560	2,724
Current Expenditure												
4. Ordinary expenditure (excluding interest payments and transfers to local governments)	450	517	646	838	980	1,084	1,161	1,275	1,409	1,538	1,655	1,815
5. Transfers to local governments re expenditure on current account	296	345	404	468	484	514	547	588	631	678	731	784
6. Interest	61	62	66	77	88	101	119	141	167	198	234	275
7. Total Current Account Expenditure	807	924	1,116	1,383	1,552	1,699	1,827	2,004	2,207	2,414	2,620	2,874
8. Surplus on Current Account	272	313	284	353	305	226	176	134	58	—15	—60	—150
Capital Expenditure												
9. Capital expenditure (excluding transfers to local governments)	227	251	332	434	406	421	442	455	477	490	531	599
10. Transfers to local governments re expenditure on capital account	106	128	138	148	163	170	177	189	202	218	234	249
11. Total Capital Account Expenditure	333	379	470	582	569	591	619	644	679	708	765	848
12. Deficit (=increase in debt)	61	66	186	229	264	365	443	510	621	723	825	998
13. Net Capital Debt at end of period	1,345	1,411	1,597	1,826	2,090	2,455	2,898	3,408	4,029	4,752	5,577	6,575
13A. Accumulated advances to Ont. Universities Capital Aid Corp. included in line 9	—	(46)	(132)	(280)	(383)	(472)	(559)	(644)	(727)	(785)	(851)	(952)
14. P.D.P. (nearest calendar year)	15,600	17,000	18,500	20,000	21,000	21,600	22,200	23,600	25,000	26,600	28,300	30,000
15. Net Capital Debt as Percentage of P.D.P.	8.6%	8.3	8.6	9.1	10.0	11.4	13.1	14.4	16.1	17.9	19.7	21.9

TABLE 6:27

COMBINED PROVINCIAL AND LOCAL GOVERNMENT BUDGETARY AND DEBT POSITION

Calendar years or nearest fiscal years, 1963-74

	1963	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*1971*	*1972*	*1973*	*1974*
	(*actual*)											
Revenue						*(millions of dollars)*						
1. Current Revenue	1,909	2,128	2,348	2,763	2,966	3,133	3,306	3,545	3,785	4,036	4,331	4,631
Expenditure												
2. Expenditure on current account (excluding interest)	1,416	1,576	1,794	2,089	2,340	2,550	2,735	2,964	3,226	3,488	3,748	4,056
3. Interest	126	132	144	163	182	203	229	259	294	334	380	429
4. Total Current Account Expenditure	1,542	1,708	1,938	2,252	2,522	2,753	2,964	3,223	3,520	3,822	4,128	4,485
5. Surplus on Current Account	367	420	410	511	444	380	342	322	265	214	203	146
6. Expenditure on capital account	525	634	749	873	855	888	942	1,001	1,058	1,110	1,204	1,318
7. Deficit (=increase in net debt)	158	214	339	362	411	508	600	679	793	896	1,001	1,172
8. Total Accumulated Net Debt	2,844	3,058	3,397	3,759	4,170	4,678	5,278	5,957	6,750	7,646	8,647	9,819
9. Estimated separate school net debt	133	144	153	162	171	180	190	200	211	222	234	247
10. Total Net Debt *less* separate school net debt	2,711	2,914	3,244	3,597	3,999	4,498	5,088	5,757	6,539	7,424	8,413	9,572
11. Accumulated advances to Ont. Universities Capital Aid Corp. included in line 10	(—)	(46)	(132)	(280)	(383)	(472)	(559)	(644)	(727)	(785)	(851)	(952)
12. P.D.P.	15,600	17,000	18,500	20,000	21,000	21,600	22,200	23,600	25,000	26,600	28,300	30,000
13. Debt (line 10) as percentage of P.D.P.	17.4%	17.1	17.5	18.0	19.0	20.8	22.9	24.4	26.2	27.9	29.7	31.9

NOTE CONCERNING THE METHOD USED IN PROJECTING PERSONAL INCOME TAX REVENUE

The steps involved in the complex projection of the yield from the personal income tax were the following:

1. Taxpayers who are taxed as single persons and those having married status for income tax purposes are considered separately. We began with the income distribution for single taxpayers as compiled in *Taxation Statistics* for the 1962 taxation year, the most recent year for which data were available when these calculations were made.

2. The average income and the average tax for each income group in 1962 were calculated.

3. We assumed that the average income in each income class would rise at the same percentage rate as does our projected P.D.P per worker and on this basis we derived projected income distributions for selected future years (1965, 1968, 1971 and 1974). We did not at this stage provide for any increase in the number of taxpayers in future years.

4. We calculated the average tax per person and the total tax in each year for each income group, on the assumption that the 1962 figures relating tax to income would continue to apply. In this way we derived the total tax, on the same number of taxpayers as in 1962, for each of the selected future years.

5. A parallel series of calculations were made for married taxpayers.

6. The projected taxes for the single and married taxpayers were added to arrive at the total tax on the 1962 number of taxpayers for each of the selected future years.

7. It was assumed that the number of taxpayers would increase at the same rate as the projected number of persons employed in Ontario. The tax yield as calculated in (6) was then adjusted by the appropriate factor, to give the total projected tax revenue in each of the selected future years. The revenue for intervening years was interpolated from the projections for the selected years.

8. The yield of the Old Age Security Tax was estimated for each year and deducted from the total tax revenue, since the revenue to Ontario from this source is calculated on a base from which the Old Age Security revenue is excluded.

9. Our projections to this stage apply to all Canada, since the necessary data on the distribution of taxable income for Ontario were not available, but it will be noted that we have assumed that this total for Canada grows at the rate we have projected for Ontario. Consequently, we can determine the projected tax revenue for Ontario by taking the appropriate percentage of the national total. In 1962 this figure was 46.6 per cent. We have assumed a slow decrease in this proportion because, since average income in Ontario is above the average for Canada, the proportion of income in excess of exemptions is higher for Ontario

but this factor will become less significant as incomes generally rise while exemptions remain unchanged.

10. We have assumed that in 1967 and subsequent years Ontario would receive 24 per cent of the figure calculated in (9) above and we have made our projection accordingly.

Some further general comments concerning this projection seem appropriate. First, we have assumed that the relative distribution of income remains unchanged throughout the period. We have examined the effect of the changes in income distribution which occurred during the period 1953 to 1962 and have found that the effect on tax revenues of such changes in income distribution as have occurred is negligible. Second, we have projected an increase in incomes, implying that a higher proportion of income earners would be subject to tax. We have made no allowance for this entry to taxpaying status at the bottom of the distribution, but the revenue accruing from this source would be small. Moreover, the introduction of the Canada Pension Plan will increase the exemptions of many taxpayers and so reduce the tax payable below what it would otherwise have been. Neither of these factors will affect revenue by more than a small amount and their net effect on total revenue would be negligible.

NOTE ON PROJECTION AS OF SPRING 1967

Our projection was completed during the summer of 1966 and we used the most recent figures that were available at that time. For the Province these were provided in the 1966 Budget and in the 1966-67 Estimates. These sources provided final figures up to the end of the 1964-65 fiscal year, preliminary figures for 1965-66, and Budget forecasts or Estimates for 1966-67. The 1967 Budget data are now available and it is the purpose of this note to consider our projection in the light of these additional data.

Our primary concern in this projection was with the size of the provincial and municipal debt. In this note we are concerned with the provincial aspects of the projection and so we shall focus our comments on it. In the 1966 Budget data the net capital debt of the Province at March 31, 1966, was estimated at $1,464 million; the final figure, which appears in the 1967 Budget papers, was $1,381 million or some $83 million less than the preliminary figure of a year earlier. This more favourable result was caused in about equal parts by actual revenue exceeding the preliminary figure and by expenditures (both on current and on capital accounts) falling short of the 1966 Budget's preliminary figure. And these figures in turn were a reflection, especially on the revenue side, of the prosperous economic conditions that prevailed in Ontario in 1965 and early 1966.

The general position is similar for the comparison with respect to the 1966-67 figures. The forecast of the net capital debt of the Province implied in the 1966 Budget papers was $1,546 million. The 1967 preliminary figure for the amount of this debt is $1,429 million or $117 million less than was indicated a year earlier. Thus the most recent estimate of the debt gives a figure that is $117

million less than the one that was included in our projection. (It should be mentioned that the debt figure used in our projection includes advances to Ontario universities by the Ontario Universities Capital Aid Corporation. For purposes of this comparison we have excluded these advances from our debt figures in order to make our figures comparable with those shown in the Budget papers.)

For the 1967-68 fiscal year our projection was for an increase of $161 million in the net capital debt of the Province; the 1967 budget forecast is for an increase of $162.6 million. In this period both revenue and expenditure were higher than our projection, very largely because the federal per-capita grants to universities were channelled through the provincial government for the first time, and the federal grants to the Province were increased by an approximately equal amount.

The outcome of this comparison is that, while our projection of the increase in the net capital debt of the Province for 1967-68 is very close to the figure in the 1967 budget, the accumulated net capital debt at March 31, 1968, now seems likely to be some $115 million below our projected figure for that date. This should not, however, cause undue concern. It is important in assessing the increase in the debt over the past two or three years to realize that this has been a period of high prosperity. And this prosperity has been reflected, as we noted above, in the improved budgetary position of the Province. It is virtually certain that some time before 1975 we will experience periods of lesser prosperity than are assumed to prevail on the average in our projection. And in such periods the net debt will rise more rapidly than has been allowed for in our projection. To put the matter somewhat differently, we may say that we have just experienced a period of greater than normal prosperity and our projection would be suspect if it did not show a position that was less favourable than the actual position at such a time.

Chapter 7

Recommendations

INTRODUCTION

1. The purpose of this chapter is to list all the recommendations made throughout this Report. They are shown in sequence under the titles of the chapters where they may be found. As their full import will not necessarily be apparent when read out of context, reference should be made to the discussion and reasoning in the text. This will be facilitated by the applicable chapter and paragraph numbers that appear in brackets at the end of each recommendation in the list.

FISCAL EFFECTS OF THE RECOMMENDATIONS: PRESCRIPTION FOR FUTURE NEEDS

1. The Province raise the average level of education grants to 60 per cent of school board expenditure over a three-year period. (8:42)

2. To the extent that higher provincial taxation will be needed to meet future revenue requirements, the Province employ a carefully balanced combination of increases in income, consumption and wealth taxes designed to take account of the considerations made explicit in this Report. (8:48)

3. Ontario negotiate with the federal government for substantial tax room over and above any abatements that might be granted in lieu of existing shared-cost programs. (8:54)

INTRODUCTION TO VOLUME II

1. All local responsibilities for the administration of justice related to the functioning of the county courts, the county jails, the regional detention centres, the registry offices and the land titles offices be transferred to the Province, and the local responsibility for all other courts be transferred to the Province under arrangements providing for

(a) appropriate apportionment of the revenue from fines between the municipalities and the Province, and

(b) recognition of the interest of local public welfare officials in the proceedings. (9:95)

2. The Province take steps to improve the reliability and comprehensiveness of the reporting of municipal financial statistics. (9:104)

TAXES ON PROPERTY: BASIC ISSUES AND POLICY PROPOSALS

1. The Assessment Act be amended to define real property liable to assessment as being land and any building or other structure on, over or under the land, and that for this purpose a building or structure include only such machinery and equipment as is a part thereof and is used or required primarily for the purposes of the building or structure or to make it more habitable. (11:25)

2. All legislative instruction as to the circumstances affecting value required to be taken into account in determining actual value for assessment purposes be removed from the legislation, including the right to adopt assessment manuals by reference. (11:33)

3. The Assessment Act be amended to provide that real property is to be assessed at actual value without reference to the value at which similar real property in the vicinity is assessed. (11:34)

4. The assessed value of each parcel of real property be divided into land and structures, and for this purpose

(a) the amount attributable to structures that have value be the amount by which the assessed value of the real property exceeds the value of the land, and

(b) where the assessed value of the real property is decreased because of the presence of the structures, the structures be determined to have no value, and the value of the land be the assessed value of the real property. (11:48)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

5. The Assessment Act require that properties be assessed as at March 31 of the year in which the assessment roll is returned. (11:51)

6. Legislation be enacted to enable any municipality or local board to appeal any provincial assessment equalization to be used directly or indirectly in determining any part of its expenditures or revenues. (11:59)

7. The Department of Municipal Affairs be granted the right to appeal any municipal assessment singly or any number of assessments collectively within any local assessment jurisdiction. (11:61)

8. Where, as the consequence of one or more appeals, a reassessment is deemed desirable in the interests of equity, the Lieutenant Governor in Council be authorized to order the reassessment on recommendation of the Minister of Municipal Affairs. (11:63)

9. The Department of Municipal Affairs be authorized, after due notice, to reassess a municipality at the municipality's expense where the local assessment as equalized by the provincial index has for a specified number of years remained below a specified percentage of actual value. (11:66)

10. The necessary changes be made in municipal and school legislation to require mill rates for commercial and industrial taxpayers to be uniform with those for residential and farm taxpayers. (11:82)

11. From the taxable assessment of residential property, there be allowed a basic shelter exemption in respect of each self-contained dwelling unit of

(a) $2,000 multiplied by the provincial equalization factor for the municipality, or

(b) 50 per cent of the residential taxable assessment applicable to the self-contained dwelling unit,

whichever is the lesser. (11:119)

12. The Assessment Act define business properties and occupancy for business purposes. (11:140)

13. (a) The provisions of The Assessment Act requiring the actual value of farm lands and buildings to be determined on a special basis be repealed; and

(b) The provisions of The Assessment Act and The Police Act providing for exemption of farm lands and taxation for certain expenditures be repealed. (11:188)

14. The assessment of the land and structures of a farm property be separated into working farm assessment, and residential assessment, and

(a) the farm dwelling and the other parts of the farm holding not qualifying as working farm be classified as residential property;

(b) where part of a farm property does not qualify as working farm because it is not fully utilized, only that portion of the farm lands and structures that is reasonable in the circumstances be classified as working farm; and

(c) the onus be upon the farm owner to establish the extent to which a farm property should be classified as working farm. (11:201)

15. Suitable definitions of "farm" and "working farm" be enacted in The Assessment Act. (11:207)

16. (a) All real property, whether taxable or not, be assessed each year at 100 per cent of actual current value;

(b) Residential properties, recreational properties and wasteland be subject to property tax on a taxable assessment of 70 per cent of assessed value;

(c) Business properties other than transportation and communications properties, but including working farms and taxable mining properties, be subject to property tax on a taxable assessment of 50 per cent of the assessed value;

(d) Occupants of business properties other than working farms and transportation and communications properties, but including taxable mining properties, be subject to business occupancy tax on a taxable assessment of 50 per cent of the assessed value of the occupied property at the same mill rate as the property tax; and

(e) Roadways and rights-of-way over land used by transportation and communications businesses be exempt from property and business occupancy taxes, and other properties of such businesses be subject to property tax and the occupants thereof be subject to business occupancy tax on a basis to be determined when the assessment of the properties has been completed. (11:208)

17. (a) The legislative provisions for single- or multi-purpose urban service areas be consolidated and made applicable on a uniform basis to all local municipalities;

(b) A municipality be required

(i) to give its taxpayers three weeks' notice of its intention to establish or alter the boundaries or the services provided by an urban service area, and

(ii) to provide an opportunity for delegations to be heard by council before introducing or amending its local by-law; and

(c) Each urban service by-law or amendment require the approval of the Ontario Municipal Board to be granted, and if in the opinion of the Board a sufficient objection to the by-law has been filed with the Board, only after a public hearing. (11:218)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

TAXES ON PROPERTY: EXEMPTIONS

1. The Province make payments in lieu of school taxes on its properties, in addition to those now made in lieu of municipal taxes, and to the extent that they apply to elementary schools, such payments, as well as those now made by the Hydro-Electric Power Commission of Ontario, be computed at the lower of the public or separate school mill rate applicable where each property is situated and be distributed to the school boards on the basis of pupil enrolment. (12:47)

2. A municipality be given a right of appeal to the Ontario Municipal Board respecting the terms of any agreement made with the Minister of Lands and Forests in regard to the financing of an access road to a tax-exempt provincial park. (12:67)

3. The Province and all its agencies, and the Hydro-Electric Power Commission of Ontario undertake to make full payments in lieu of municipal, school, business occupancy and local improvement levies on their properties other than

(a) public highways,

(b) land betterment works, to the extent that they convey an unrestricted community benefit,

(c) recognized historic sites that are not being exploited commercially, and monuments or memorials, except to the extent of their utilitarian value, and

(d) remote or undeveloped Crown lands not under lease or subject to mining or timber rights and not benefiting from local government services,

except to the extent that such payments are reduced in recognition of local services provided by the owner of the property upon agreement with the local authorities, who shall have a right of appeal to the Ontario Municipal Board as to the amount of any such reduction. (12:72)

4. Privately and municipally owned recognized historic sites that are not being exploited commercially be subject to taxation or payments in lieu of taxes only to the extent of their utilitarian values. (12:73)

5. Local authorities be permitted to enter into agreements with property owners for reductions in their taxes based upon their undertaking to provide all or some of their own local services, subject to review by the Ontario Municipal Board. (12:73)

6. After introducing a system of full payments in lieu of taxes on provincial and Hydro properties, the Province petition the federal government to extend its system of grants in lieu of taxes on federal properties, including the properties of Crown corporations and agencies, to parallel the basis of payments in lieu of taxes on provincial properties, subject to:

(a) retention of the exemption of Indian reserves;

(b) federal decision respecting the precise basis of grants for school purposes;

(c) continuation of the present method of assessing federal properties for grants in lieu of taxes; and

(d) continuation of the referral of all matters relating to federal grants in lieu of taxes to the Minister of Finance for final determination. (12:88)

7. (a) Local government property occupied for purposes of a business enterprise be taxable on the same basis as private business property; and

(b) Full taxes, excluding levies for county, metropolitan or other secon-tier requisitions, be payable to local municipalities and to school boards on all other properties of

(i) an upper-tier municipality,

(ii) a local authority whose territorial jurisdiction overlaps local municipal boundaries,

(iii) a local municipality situated outside its boundaries, or

(iv) a local board situated outside the municipality where it exercises jurisdiction. (12:102)

8. The same partial or full exemption from payments in lieu of taxes as those recommended for provincial properties be extended to local government properties. (12:103)

9. All present exemptions from property taxation to institutions of higher learning be terminated following provincial review of the merits of each institution for continuing financial assistance; and provincial grant support to institutions of higher learning in lieu of the tax exemptions be confined to those institutions recognized for the purpose either by the Department of University Affairs or the Department of Education. (12:112)

10. All present exemptions from property taxation to private schools be terminated following provincial review of the merits of each school for continuing financial assistance; and provincial grant support to private schools in lieu of tax exemptions be confined to schools providing approved education at the elementary or secondary levels. (12:114)

11. Public hospitals be made subject to full realty taxes and, where applicable, local business taxes; and

(a) public hospitals be authorized to include pertinent realty and business taxes as part of their costs under the Hospital Care Insurance Plan;

(b) the Province undertake to pay in full the realty and business taxes chargeable to the Hospital Care Insurance Plan and negotiate with the federal government to share the cost; and

(c) the Province give consideration to granting further support to each public hospital in respect of local taxes that would not be chargeable to the Hospital Care Insurance Plan, and from which it is now exempt, before the exemption is terminated. (12:117)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

12. The Assessment Branch of the Department of Municipal Affairs be authorized to assess institutions of higher learning, private schools and public hospitals on which the Province makes grants in lieu of realty or business taxes, and such assessments be subject to appeal. (12:118)

13. Places of worship and land used in connection therewith, and religious seminaries not classed as institutions of higher learning or as private schools, be reassessed at actual value and taxed on a taxable assessment of 5 per cent of actual value in the first year and 10 per cent in the second year, with increases of 5 percentage points each succeeding year until a level of 35 per cent, or such other maximum percentage as a review of the tax position of places of worship made after five years may indicate to be appropriate, has been reached. (12:127)

14. Present cemetery lands remain exempt while they comply with the terms of their existing exemption except when classified as adaptable to an alternative use, in which event they become taxable on a change of use or at the end of three years, whichever is earlier; and newly designated cemetery lands be taxable. (12:132)

15. All present exemptions from property taxation to charitable organizations, social and community service groups and similar bodies be terminated following review by the appropriate governmental authorities of the merits of each organization for continuing financial assistance; and

(a) legislation be enacted to permit each municipality to make annual grants to charitable organizations, institutions, associations and others engaged in works that, in the opinion of the council, are for the general advantage of the inhabitants of the area; and

(b) the taxes on a formerly exempt property be limited, after deduction of any governmental grants-in-lieu, to one-third of the property and business taxes or $100, whichever is the greater, in the first year and to double that amount in the second year. (12:143)

16. The exemption contained in The Assessment Act of up to twenty acres of a farm used for forestry purposes, and the authority given in The Trees Act for a township council to exempt from taxation lands under reforestation by agreement, both be revoked. (12:152)

17. No further fixed assessments or fixed taxation agreements be authorized by either public or private legislation, and steps be taken to reconcile existing fixed assessments or taxes with the need for reassessment throughout Ontario at market value. (12:166)

18. The proposed legislation respecting business assessment provide that all property used in common by business tenants and their customers be subject to business assessment against either the owner or the tenants. (12:168)

19. The exemption from business assessment of subordinate lodges of registered friendly societies be revoked. (12:173)

20. Municipalities be permitted to pass by-laws exempting from business

assessment land set aside for free employee parking for a five-year period, and be permitted to renew such exemptions by by-law for further periods of five years. (12:174)

21. The present formula for the computation of provincial payments to mining municipalities under The Assessment Act be replaced by a formula under which

(a) the payment is computed by applying the municipality's mill rate for the immediately preceding year to a "municipal mines assessment";

(b) the "municipal mines assessment" of the municipality is computed as that proportion of its "fiscal impairment" that the number of its mining employees resident in the municipality bears to the number of all employed persons resident in the municipality; and

(c) the "fiscal impairment" of a municipality is computed as the amount needed to make the ratio of its commercial and industrial assessment to total assessment equal to that same ratio for similarly situated non-mining municipalities. (12:209)

22. Upon adoption of the proposed formula for computing provincial payments to mining municipalities, the present limitation in the payment to a municipality, to 50 per cent of the total amount that would have been levied in the preceding year if no mining payment for that year had been received, be abolished. (12:210)

23. The present provision permitting the Minister of Municipal Affairs to increase the payment to a mining municipality where it would otherwise be less than the amount of the tax on mining profits that it would have collected under The Assessment Act if it were not designated a mining municipality, be repealed. (12:211)

24. If the payment to a mining municipality within five years from the implementation of the proposed formula would otherwise be less than the amount paid in the last year for which the present formula was applicable,

(a) the amount payable for the first year on the new formula be equal to the payment for the last year under the old formula as adjusted for any subsequent decrease in mill rate, and

(b) the amount payable for the second, third, fourth or fifth year on the new formula be reduced by not more than the applicable one of the following percentages of the difference between the amount otherwise payable for the year and the amount paid in the last year under the old formula as adjusted for any subsequent decrease in mill rate:

(i) for the second year, 20 per cent,

(ii) for the third year, 40 per cent,

(iii) for the fourth year, 60 per cent, and

(iv) for the fifth year, 80 per cent.

(12:220)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

25. The present provision, under which the payment to a mining municipality may be increased to the amount paid in the preceding year, be changed to provide that:

(a) a payment for a year that otherwise would be less than the payment for the preceding year be not less than the proportion of the preceding year's payment that the average number of resident mining employees for the three years ending with the year of payment bears to the average number of resident mining employees for the three years ending with the year preceding the year of payment;

(b) for the purpose of the above, where the payment for the preceding year had been increased in accordance with the transitional provision previously recommended, the payment for that year be deemed to be the payment that would have been made if it had not been so increased; and where the mill rate used in computing the payment for the year is less than than that used in computing the payment for the preceding year, the payment for the preceding year be deemed to be the amount that it would have been if the current mill rate had been applicable; and

(c) where under the transitional provision previously recommended, the payment to the municipality would be greater than that under the above provision, the greater amount be paid to the municipality. (12:220)

26. The provincial authorities assess the value of all mining structures exempt from property and business taxes imposed by municipalities and school boards. (12:232)

27. The present provision in The Assessment Act exempting "buildings, plant and machinery in, on or under mineral land, and used mainly for obtaining minerals from the ground, or storing the same, and concentrators and sampling plant" be amended so as to indicate clearly the properties that are exempt and those that are taxable. (12:234)

TAXES ON PROPERTY: ASSESSMENT

1. Assessment legislation now contained in The Local Roads Boards Act and The Provincial Land Tax Act be transferred to The Assessment Act and made uniform insofar as possible with the corresponding provisions of that Act; and

(a) in a district where a district assessor has been appointed, responsibility for assessing in a local roads area be assigned to the district assessor,

(b) responsibility for assessing for provincial land tax purposes be assigned to the Assessment Branch of the Department of Municipal Affairs, and

(c) the required level of taxation within each provincial land tax region be calculated annually with due regard for the Province's cost of providing that region with services ordinarily provided by local government. (13:45)

2. Real property used for transportation or communications enterprises be assessable on the same basis as other real property; and

(a) the responsibility for assessing the properties of transportation and communications enterprises that overlap local assessment jurisdictions be assigned to the Assessment Branch of the Department of Municipal Affairs, and assessments of such properties be subject to appeal by the local taxing jurisdictions within which they are situated, and

(b) the Assessment Branch be empowered

(i) to assess other transportation and communications properties at the request of the responsible local jurisdictions, and

(ii) to relinquish to local jurisdictions the responsibility for assessing transportation and communications properties where the extent of overlapping jurisdiction is nominal. (13:84)

3. The Assessment Branch of the Department of Municipal Affairs develop and promote the adoption of a plan of annual reassessment in each municipal assessment jurisdiction. (13:135)

4. The Province make arrangements to ensure that pertinent real property information obtained by other municipal departments and local boards, and through electrical inspections by the Hydro-Electric Power Commission of Ontario, is made available on a regular basis to municipal assessment departments. (13:135)

5. County assessment equalization be replaced immediately by provincial assessment equalization. (13:143)

6. Provincial equalization reports show separate index figures for each local municipality and for each major property classification within the municipality and denote the number of properties used in computing each index. (13:147)

7. The Assessment Branch publicize the effect upon mill rates of each municipal reassessment at present value. (13:163)

8. The costs incurred by a municipality in completing an initial reassessment at market value be reimbursed by the Province to the extent of

(a) all of the extraordinary costs, or

(b) 50 per cent of the total costs,

whichever is the greater. (13:168)

TAXES ON PROPERTY: COLLECTIONS

1. The fiscal year of municipalities, school boards and other local boards end on March 31 of each year. (14:21)

2. Statutory provision be made:

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

(a) requiring local municipalities and school boards to adopt their annual estimates and strike their tax rates by March 31 of each year;

(b) setting appropriate earlier dates for completion of the county and metropolitan estimates and for submission of the estimates of other local boards and commissions; and

(c) subjecting the local authorities concerned to appropriate penalties for non-compliance. (14:22)

3. The Province encourage expanded use of instalment tax billing with a view to the eventual establishment of a mandatory province-wide instalment system. (14:47)

4. Councils and school boards be authorized to fix interest on overdue taxes in respect of the current or previous years at a rate not less than 6 per cent per annum compounded semi-annually. (14:58)

5. The owner of a business property be made responsible for the collection and remittance of municipal and school taxes levied in respect of business assessments on his tenants, and be made liable for such taxes that he fails to collect; and the business property be subject to lien for any such taxes that are not paid. (14:67)

6. The present provisions for collection of overdue taxes by county treasurers be replaced by new arrangements under which local municipalities or school boards may contract with the county for the use of its office services in collection of their current and past due taxes. (14:72)

7. The tax sale procedures of The Assessment Act be abolished and replaced for all municipalities by the tax arrears certificate registration system now provided in The Department of Municipal Affairs Act. (14:82)

8. Transfer of title to a municipality under a tax arrears certificate take effect and be made final one year from the date of registration. (14:83)

9. By-laws cancelling any taxes as uncollectible be given readings at two regular meetings at least 14 days apart. (14:86)

10. Any large units of local government that may be formed in the future be given the responsibility for administration of billing and collection of its own taxes and those of the municipalities and school boards within their territories. (14:89)

SPECIAL CAPITAL LEVIES AND DEVELOPER CHARGES

1. The legislative authority for financing capital works through special levies be consolidated in a single statute, and the procedures be simplified and made as uniform as possible. (15:50)

2. Both the municipal council and the taxpayers concerned be given the right of initiative for all kinds of capital levy projects. (15:52)

3. Whenever a council initiates a special capital levy project, a sufficient opportunity be provided for the affected taxpayers to petition against the work and the council be required to reconsider the project if a petition meeting statutory requirements has been lodged against it. (15:52)

4. Of all classes of property, only transportation and communications properties, such as pipe lines, railway lines, and telephone and telegraph lines, be exempt from a special capital levy, but such exemption not apply to those particular properties that will be benefited by the project for which the levy is to be made. (15:53)

5. Provincial legislation classify the municipal capital works eligible for financing by special capital levies and specify the form of levy for each category that will achieve the most equitable apportionment of the cost. (15:56)

6. Provincial legislation require each municipality proposing to use special capital levies to pass a special assessment by-law which defines both the intended use to be made of the levies and the proportion of the total cost of each category of works that is to be financed by them. (15:57)

7. Provincial legislation set precise limits within which the terms of subdivision agreements may be drawn, and require the filing of such agreements with each proposed plan of subdivision so that the Province may satisfy itself that the terms of each agreement are within the law. (15:90)

8. Cash imposts on developers for unspecified purposes, or for purposes other than the recovery of the cost of allowable municipal service installations or extensions, be prohibited. (15:91)

9. The imposition by a municipality of conditions for land development relating to the per-capita assessed value of subdivision property and proportions of residential, commercial and industrial assessment, other than those provided in its planning, zoning and similar land-use by-laws, be prohibited. (15:92)

THE POLL TAX

1. The right of Ontario municipalities to levy poll tax be repealed. (16:18)

LOCAL NON-TAX REVENUES

1. The Department of Municipal Affairs review the legislation enabling municipalities to license or issue permits for a fee with the object of ensuring that the purpose of the licensing is regulatory rather than the raising of revenue. (17:16)

2. The provisions relating to licence and permit fees in The Municipal Act and other Acts be amended to provide that the amount of the fee must not exceed

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the estimated amount required for full cost recovery by more than approximately 20 per cent or drop below the amount required to produce approximately 80 per cent of full cost recovery. (17:21)

3. Differences in the fees charged residents and non-residents for business licences be no more than is warranted by actual differences in the costs of regulation and supervision. (17:22)

4. Municipal licensing that is designed to limit the number of participants in particular businesses be prohibited except where the provincial government considers it to be justifiable, in which event

(a) it be brought under close provincial supervision, and

(b) the fees be set at levels that will return a significant portion of any monopolistic profits to the local public treasury. (17:24)

5. The Department of Municipal Affairs assist municipalities in organizing their accounts so as to establish the cost of goods and services to which user charges apply, and in developing appropriate cost recovery policies. (17:30)

6. The Department of Municipal Affairs amend the form of municipal audited financial statements and its Annual Report of Municipal Statistics so that revenues from user charges are reported as revenues rather than as undisclosed deductions from related expenditures. (17:30)

7. The Department of Municipal Affairs collect and publish comprehensive financial data relating to all municipal revenue-earning enterprises. (17:43)

8. The Department of Municipal Affairs define "municipal revenue-earning enterprises" and require separate fund accounting of their operations whether or not they come under the immediate control of some special-purpose body. (17:44)

9. Necessary legislative action be taken to ensure that all municipal revenue-earning enterprises pay full taxes, including business taxes, and that they charge for all services provided by them including services supplied to parent municipalities. (17:46)

10. Any substantial subsidization of municipal revenue-earning enterprises from the municipal treasury, and retention by or transfer to the municipal treasuries of substantial surpluses earned by municipal revenue-earning enterprises, require annual authorization by by-law. (17:53)

11. The Department of Municipal Affairs undertake comprehensive studies designed to evolve precise and constructive policies to guide the operation of local revenue-earning enterprises with particular reference to the form and extent of their revenues. (17:54)

LOCAL REVENUE AND PROPERTY ASSESSMENT APPEALS

1. (a) The present Courts of Revision be replaced by one or more Assessment Appeal Boards for each city, separated town and county or any combination thereof, or any larger taxing unit that may be formed,

composed of three members to be appointed for a three-year term and remunerated by the municipality;

(b) Similar Assessment Appeal Boards be appointed for each district by the Minister of Municipal Affairs upon the recommendation of the local municipalities within the district; and

(c) The members of an Assessment Appeal Board be persons meeting prescribed qualifications who are, or in the year prior to their term of office were, neither employees nor members of the Council of the municipality or of the Council of any other local elective body with jurisdiction within that municipality. (18:12)

2. A taxpayer who has filed a notice of appeal to an assessment have the statutory right to examine, personally or through an agent, all the material used to establish the assessment subject to objection. (18:13)

3. Provision be made so that, if the work of the Assessment Appeal Board of a municipality cannot be processed within the statutory time, the municipality may appoint a temporary Board or enlist the services of a Board from another municipality. (18:14)

4. Jurisdiction in all matters in dispute relating to municipal property and business tax arising from any assessment, levy or administrative act and from any decision of the Assessment Appeal Board be given to the County or District Court. (18:16)

5. The federal government be requested to appoint additional County Judges at large to specialize in assessment appeals. (18:19)

6. No costs be charged on any appeal before the proposed Assessment Appeal Board. (18:20)

7. Statutory direction be given that costs as between a solicitor and his client are to be awarded to the appellant and against the municipality in all appeals before the County or District Court unless the Court considers that the appeal is frivolous and vexatious or that the appellant previously has withheld pertinent evidence. (18:20)

8. Existing high school district and county equalization appeal procedures be repealed and the appeal procedures recommended for other property and business tax matters be made applicable. (18:22)

9. The right to apply for tax relief on the grounds of sickness or extreme poverty be withdrawn. (18:23)

SCHOOL FINANCE

1. So long as school grants are on a calendar year basis, the existing practice of calculating them on the previous calendar year's pupil load be replaced by a

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system of calculations that reflects school enrolment in the period beginning the first school day of September of the calendar year preceding that in which the grants are paid. (20:41)

2. In the event that school finances are based on a fiscal year that coincides with that of the Province, the final school grant instalment be based on calculations of pupil load that reflect enrolment in September of the fiscal year in which the grants are paid. (20:42)

3. Provincial treatment of the recognized extraordinary expenditure of school boards be amended so that the grant contribution to capital expenditure is applied at the time the expenditure is incurred. (20:47)

4. In each municipality, the assessment of corporations that cannot under The Assessment Act direct their taxes for school support be segregated into a distinct allotment taxable by public and separate school boards in exact proportion to the relative pupil enrolment of the boards. (20:57)

5. The elementary school mill rate levied in any given year against the corporation assessment allotment be the lower of the public or separate school mill rate applicable where the property is situated. (20:58)

6. The grants on behalf of municipal inspectors' salaries, evening courses, industrial arts and home economics instruction to non-resident pupils, library books, text-books, small secondary schools, and televised instruction be abolished in their present form and incorporated into the basic structure of the Ontario Foundation Tax Plan. (20:64)

7. The existing grant for English, French and citizenship courses for new Canadians be abolished and that the Province relieve school boards of all costs arising from such courses. (20:65)

8. The grants for free milk, trustees' council fees, and entering larger units of administration be terminated. (20:66)

9. All future grants made by the Province for vocational school construction be integrated under the provisions of the Ontario Foundation Tax Plan. (20:69)

10. The requisitioning powers of public school boards, separate school boards and boards of education be terminated, and that these boards levy their own taxes to be collected through bills issued for the purpose by municipalities and payable at times distinct from those at which municipal tax bills are payable. (20:79)

PROVINCIAL GRANTS TO MUNICIPALITIES

1. The Department of Highways prepare a scheme for classifying all roads in accordance with the user and local access benefits that flow from them, and assign each Ontario road and street to its appropriate class within five years of the publication of this Report. (21:24)

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2. Upon the completion of the road classification scheme, provincial road grants be based on total expenditure for each class of road within a municipality, the percentage of provincial aid to coincide with the percentage of user benefits assigned to each class of road. (21:24)

3. Municipalities be given the right to appeal the classification of any road first to the Department of Highways, and then to the Ontario Municipal Board, which shall have the right to require further studies by the Department of Highways, and whose decision shall be final. (21:25)

4. Transitional measures accompany the introduction of the new road grants to help municipalities adjust to changes in provincial payments, such measures to be gradually phased out within five years of the introduction of the new grant system. (21:26)

5. While the present county road equalization scheme remains in effect, no county be penalized for fiscal efforts that enable it to exceed the level of defined needs. (21:29)

6. Development roads be designated by the Minister on the sole criterion of population sparsity, and a list of roads so designated be tabled annually in the Legislature. (21:33)

7. Roads designated as development roads either be under provincial jurisdiction or, where population growth is likely, be provincially supported in such a manner that development status is phased out over a period of no more than ten years, at the end of which the road becomes an integral part of the municipal system. (21:34)

8. A report on all special considerations giving rise to provincial road assistance to municipalities that cannot be geared to formulas be tabled in the Legislature, together with the dollar amounts of special provincial assistance involved. (21:35)

9. Provincial grants in support of child welfare services be raised to a rate of 80 per cent. (21:54)

10. The level of provincial grants for the maintenance of inmates of municipal and approved private homes for the aged, and toward the maintenance of elderly persons in satisfactory alternative accommodation under municipal auspices, be increased to 80 per cent. (21:57)

11. The Province provide all persons who become indigent with premium-free insurance under the Ontario Hospital Care Insurance Plan, without a waiting period. (21:59)

12. The level of provincial grants towards homemakers' and nurses' services be increased to 80 per cent. (21:60)

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13. All dollar ceilings on existing provincial grants to conservation authorities be abolished. (21:66)

14. Grants on behalf of weed, warble fly and plant disease control be abolished. (21:67)

15. All health grants to municipalities for such specific purposes as school nursing inspection, school dental services and venereal disease clinics be terminated. (21:68)

16. All municipalities providing full-time public health services satisfactory to the Department of Health, whether individually or through health units, be eligible for a provincial grant of 50 per cent of their public health expenditures. (21:72)

17. The ceiling on the Department of Social and Family Services grant for the construction of low-rental housing for the aged be removed. (21:80)

18. Upon the creation of any unit of regional government, the Province terminate all existing grants for recreation and community services to the municipalities within the region in favour of a Community Enrichment Grant payable to the regional government. (21:88)

19. All recreation and community service grants now applicable to the Municipality of Metropolitan Toronto and its constituent municipalities be terminated forthwith in favour of a Community Enrichment Grant of $2 per capita payable to the Municipality of Metropolitan Toronto for apportionment between Metro and its constituent municipalities. (21:89)

20. All provincial grants on behalf of the administration of justice be abolished. (21:91)

21. The grants payable to municipalities under provisions of The Fire Departments Act and The Police Act be abolished. (21:92)

22. Provincial grants on behalf of municipal expenditure for wolf and fox bounties be abolished. (21:93)

23. The Municipal Unconditional Grants Act be repealed. (21:94)

24. The Province pay to each tax-levying local authority a Basic Shelter Exemption Grant calculated annually by applying the authority's mill rate to the aggregate of the basic shelter exemptions applicable to residential and farm properties within its boundaries. (21:96)

25. There be paid annually to all municipalities now receiving assistance under The Municipal Unconditional Grants Act a new unconditional grant providing, for the relief of all property taxpayers, an initial rate of $7.00 per capita for the first 2,500 of population, an increase of 50¢ per capita for the next 2,500 of population, and an additional increase of 50¢ for each subsequent doubling of the population. (21:98)

26. The unconditional grant be based on the population reported annually by the municipality for assessment purposes. (21:100)

27. The Province, through Cabinet or an appropriate organ thereof, make a comprehensive annual review of provincial-local finance and give yearly approval to all grant programs. (21:104)

28. In instituting a comprehensive annual review of provincial-local finance, the Province employ an expert staff to conduct continuing studies of the fiscal and economic condition of local governments. (21:105)

29. The Province publish and table in the Legislature a report on its annual review of provincial-local finance, giving special emphasis to the fiscal and economic condition of local governments. (21:106)

30. The Province, upon reviewing the five-year capital budgets of municipalities and prevailing economic conditions in Ontario, be authorized to meet all of the interest and other costs of temporary borrowing required to advance the initiation of municipal capital projects. (21:107)

MUNICIPAL DEBT

1. Payment of provincial grants be scheduled throughout the year to help ensure an orderly flow of funds to meet the expenditure patterns of the recipient local authorities. (22:65)

2. The present limit on municipal borrowing for current purposes be replaced by new provisions

   (a) setting new statutory limits based solely on the last adopted estimates of revenue for a full year;

   (b) permitting borrowing without prior approval within the limits of 15 per cent of such revenues without notice, and of 25 per cent with a full explanation given to the Province within 30 days of the borrowing;

   (c) permitting borrowing in excess of 25 per cent of such revenues only with prior approval of the Province, and, if municipal councillors undertake such borrowing without provincial approval, applying the present penalty of disqualification from holding office for two years; and

   (d) empowering the Province to require municipalities that borrow in excess of 15 per cent of revenues to create and maintain a working-fund reserve through a contribution of up to 3 per cent of the current levy. (22:68)

3. The maximum term of capital borrowing for each type of asset, based upon a realistic concept of its anticipated useful life, be set out in a schedule to a Regulation prescribed by The Municipal Act, in lieu of the present provisions of the Act fixing, or empowering the Ontario Municipal Board to fix, the term of capital debt. (22:91)

4. Municipal corporations and each of their associated local boards be required to provide in their annual estimates amounts for capital purposes equal to the lesser of:

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

(a) the amount of capital expenditures in their five-year capital budget that remains to be financed, and

(b) a statutorily specified percentage of their estimated current expenditures. (22:107)

5. A municipality or local board be permitted to make provision without limit for capital expenditures from revenue, provided that each such provision is clearly identified in the annual estimates of the body concerned at the time that they are adopted. (22:109)

6. For the purposes of the Annual Report of Municipal Statistics and preparation by council and assessment of municipal capital budget submissions prerequisite to provincial approval of borrowing, the capital debt of a municipality be deemed

(a) to include the proportion of the debt for which it or its ratepayers are responsible that has been incurred by the Ontario Water Resources Commission, the Central Mortgage and Housing Corporation, a public or separate school board, or any similar local authority, commission or corporation, and

(b) to exclude school debt to the extent that the debt charges on such debt are being met by provincial grant. (22:114)

7. The provision for referendum on money by-laws be abolished and instead:

(a) the provincial authority responsible for approving borrowings be required to give electors or persons qualified to vote on money by-laws an opportunity to speak at a hearing prior to making a decision on an application;

(b) municipal councils be required to give owners and other persons qualified to vote on money by-laws notice of, and an opportunity to speak at, any council meeting at which it is proposed to discuss expenditures that will be financed through borrowing beyond the year. (22:126)

8. (a) Every municipality be required each year to submit for provincial approval a capital budget for a period of at least five years;

(b) upon approval of each capital budget or any amendment thereto, a municipality be permitted to effect without further approval the borrowing required for the proposals scheduled therein for commencement in the first year; and

(c) upon effecting any borrowing so permitted, the municipality be required to notify the Province forthwith. (22:128)

9. The responsibility for giving all approvals of municipal borrowings required by statute be transferred from the Ontario Municipal Board to the Department of Municipal Affairs. (22:132)

10. The effective interest rates on all forms of provincial lending to municipalities be reviewed regularly and maintained at a uniform level at a small margin above the ordinary market rate. (22:135)

11. On changing the system of grants so as to pay school boards the provincial share of capital costs instead of debt charges, the practice of lending through the Ontario Education Capital Aid Corporation be abolished. (22:138)

12. The Province periodically review federal borrowing arrangements open to Ontario municipalities with the object of either obtaining the elimination of the borrowing aspects from what are essentially conditional grant programs or opting out of the arrangements altogether. (12:141)

13. Municipal corporations be required to carry out capital borrowing for separate school boards in the same manner as for other school boards. (22:144)

14. The Department of Municipal Affairs give study to ways in which a broader and more active market might be developed for municipal debentures. (22:148)

RECONCILING STRUCTURE WITH FINANCE

1. The provincial government plan and schedule the detailed studies of boundaries, functions and forms of municipal organization needed to establish a comprehensive system of regional government within five years of the publication of this Report. (23:151)

2. All regional governments be specifically charged with the functions of assessment, tax collection and capital borrowing on behalf of their constituent municipalities. (23:152)

3. For as long as it proves impracticable to include a municipality or other reasonably settled community under the aegis of a governmental region, the Province undertake to make available appropriate regional services on a contractual basis. (23:153)

4. In devising a scheme of regional government for Ontario, the Province take the necessary steps to integrate secondary education as a regular responsibility of the regional council. (23:165)

INTRODUCTION TO VOLUME III

1. After due study, the form of the Public Accounts be revised so as to provide a comprehensive and more meaningful presentation of the revenues, expenditures and financial position of the provincial government and all its agencies. (24:13)

2. In addition to the financial statements prepared by the Provincial Auditor, government revenues and expenditures be classified and presented on a national accounts basis. (24:14)

PROVINCIAL REVENUE LEGISLATION: ADMINISTRATION AND APPEALS

1. The Government of Ontario establish a Department of Provincial Revenue responsible for the administration of all revenue statutes now administered by the Treasury Department under the Comptroller of Revenue. (25:7)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

2. A review be made of all revenues not at present collected by the Treasury Department with a view to consolidating revenue administration in the proposed Department of Provincial Revenue. (25:8)

3. Statutory provision be made for the regular audit of agents who collect taxes, and that, except in cases of misrepresentation, fraud, or failure to remit tax collected, assessments for unpaid tax, together with interest, be limited to the two-year period before the audit, but that interest continue to run thereafter until the taxes assessed are paid. (25:11)

4. All revenue statutes that provide for collection through a "billing" or "self-assessing" method include the requirement that any assessment by the Province be made "with all due dispatch" and that, in the absence of misrepresentation or fraud, interest imposed for the period prior to assessment or reassessment for any deficiency in tax be limited so that it does not extend beyond two years from the date that the return was filed, or required to be filed, whichever is later. (25:12)

5. All revenue statutes prohibit, except for fraud or misrepresentation, any reassessment of a taxpayer after the expiry of six years from the date of the first or original assessment or after any shorter period of time specified in an applicable intergovernmental tax collection agreement. (25:13)

6. Each revenue statute require that administrative officials, boards or commissions state fully and clearly in writing to the person involved the authority or basis of their actions, together with the reasons by which they justify their actions, and that, where the privacy of the person is not affected, these reasons be published whenever this is deemed to be in the public interest. (25:14)

7. The Government of Ontario publish from time to time Information Memoranda setting out administrative interpretation and procedures of its revenue statutes. (25:15)

8. Fees for the issuance of collectors' and agents' licences be abolished and that no collector's or agent's licence be refused issuance or reissuance except upon failure to obtain a surety bond when required. (25:17)

9. Provision be made in all revenue statutes for a right of refund where overpayment has been made, whether under mistake of fact or of law. (25:20)

10. Appropriate statutory provision be made for interest to be paid in respect of all overpayments. (25:21)

11. The penalty provisions in all revenue statutes provide that interest is to be payable in respect of overdue amounts at a uniform rate, in excess of the maximum rates ordinarily charged by banks, to be set periodically by the Lieutenant Governor in Council. (25:23)

12. All revenue statutes provide a reasonable but effective penalty for delinquent and late filing of returns, and grant to the minister responsible discretionary power to allow, where appropriate, extensions of time for the filing of tax, information and other returns. (25:24)

13. All revenue statutes that provide for liens against the property of delinquent taxpayers give authority to the Minister responsible to issue certificates of no claim for lien, which shall be binding on the Crown in respect of a transaction in which the applicant is involved that is completed within a stated period. (25:26)

14. A statutory Board of Review be constituted within the Treasury Department to hear objections to the assessment of taxes, the levying of other charges, and any other administrative acts performed under authority of the revenue statutes. (25:30)

15. On the recommendation of the Chairman of the Board of Review, the government publish from time to time those decisions of the Board that are matters of general public interest. (25:32)

16. Each revenue statute provide a right of appeal to the High Court of Justice for Ontario from any assessment, levy, administrative act or review upon obtaining leave of the Court, and from any decision of the Board of Review as a matter of right. (25:33)

17. The Chief Justice of the High Court be requested to designate one or more of the members of his Court as a judge or judges in revenue appeals. (25:35)

18. No costs be charged on any hearing before the proposed Board of Review. (25:36)

19. Statutory direction be given to the Supreme Court of Ontario to award costs as between a solicitor and his client to the appellant and against the Crown unless the Court considers that the appeal is frivolous and vexatious or that the appellant had previously withheld pertinent evidence. (25:37)

20. All revenue statutes provide that security for costs, if any, be at the discretion of the Court. (25:38)

21. Wherever a revenue statute imposes a time limit within which to take a step in the appeal procedure, such limit be extended on application to the Supreme Court of Ontario upon such terms as the Court thinks equitable under the circumstances. (25:39)

22. A Select Committee of the Legislature on Civil Rights in Revenue Legislation be appointed to make a periodic review of all revenue statutes of Ontario for the purpose of ascertaining whether or not a constant and uniform policy respecting the rights and duties of citizens is being maintained. (25:41)

THE PERSONAL INCOME TAX

1. Ontario press the federal government to consult the provinces on proposals for changes in the structure of the personal income tax, to ensure the fullest possible measure of agreement. (26:126)

2. Ontario press the federal government for consultation with the provinces in respect of all questions relating to the sufficiency of uniformity between the federal

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and provincial legislation, and to the adequacy of the authority provided to enable federal collection of provincial tax and administration of provincial legislation. (26:128)

3. In the negotiation of any future fiscal arrangements with the federal government, Ontario press for a provincial sharing in the yield from the non-resident withholding tax computed at the same rate as the rate of federal abatement for corporation income tax. (26:130)

4. In the negotiation of any future fiscal arrangements with the federal government, Ontario press for provincial sharing in the yield from the taxes imposed upon corporations in lieu of taxes on corporate distributions to shareholders, such provincial sharing to be in the same proportion as the personal income tax abatement and to be allocated among the provinces in the same proportion as the income of each corporation liable for such a tax is allocated for purposes of the corporation income tax abatement. (26:133)

5. Ontario press for amendments in the provisions of the tax collection agreement that would permit it to notify the federal government of its intention to change its rate of taxation for a year at a date later than October 1 of the preceding year, the date now required. (26:136)

6. Section 3(4)(a) of The Income Tax Act of Ontario be amended

(a) to provide that the "tax payable under the Federal Act" for purposes of calculating the Ontario income tax be the amount as defined at present plus the amount of any credit for provincial logging tax deducted under Section 41A of the federal Act, and

(b) to permit an individual to deduct from his Ontario income tax an amount equal to one-third of the tax payable by him under The Logging Tax Act. (26:162)

7. The tax credit for foreign tax under The Income Tax Act of Ontario be determined by reference to income "from sources in" a country other than Canada, rather than income "earned in" such a country. (26:164)

8. The amount to which the tax credit for foreign tax is limited under paragraph (b) of Section 3(6) of the Act be a proportion of the tax payable under the Act, rather than a proportion of the abatement for provincial tax under the federal Act. (26:165)

9. A taxpayer who has elected to average his income under the federal Income Tax Act be similarly treated under The Income Tax Act of Ontario even if he resided in another province or earned business income outside Ontario during the averaging period; but the saving in Ontario tax resulting from the election to average, be limited to the proportion of the amount otherwise applicable that his income attributable to Ontario is of his total income for the five-year period. (26:168)

10. Provision be made in The Income Tax Act of Ontario requiring that a reassessment be made if the amount of federal tax for any year is changed by a

decision of the Minister following the filing of a notice of objection, or by a decision of the Tax Appeal Board or a Court. (26:170)

THE CORPORATIONS TAX

1. Ontario seek an agreement with the federal government for the collection of corporate income taxes under which:

(a) a copy of each federal corporate tax return of a corporation incorporated in Ontario, having a permanent establishment in Ontario or carrying on business in Ontario, and all notices of assessment thereof, would be made available to the Treasurer of Ontario, either by the federal government or by the taxpayer's filing, and

(b) the federal authorities would undertake

(i) upon written request of the Treasurer of Ontario to conduct an audit of an Ontario taxpayer's return and advise the Treasurer of the results, and

(ii) to consult regularly with the Treasurer of Ontario on the desirability of any proposed changes in the structure of the tax or its yield to the province. (27:97)

2. In the event that Ontario does not enter into a corporate tax collection agreement with the federal government, The Corporations Tax Act be amended to provide that:

(a) every corporation shall pay a tax at the rate specified, computed on its taxable income earned in the year in Ontario as determined under the provisions of the Income Tax Act (Canada) and the Regulations thereunder, except as otherwise specifically provided in The Corporations Tax Act;

(b) all discretions exercised by the Minister of National Revenue under the Income Tax Act (Canada) shall be deemed to have been exercised by the Treasurer of Ontario unless the Treasurer exercises a discretion, when the determination made by the Treasurer shall prevail;

(c) all elections made by a taxpayer under the Income Tax Act (Canada) shall be deemed to have been made for purposes of The Corporations Tax Act unless otherwise specifically provided in that Act; and

(d) every corporation required to file a return under The Corporations Act (Ontario) shall file with the Treasurer each year a copy of its return filed under the Income Tax Act (Canada), and a copy of every election, pension plan or other document filed with the Department of National Revenue under any provision of the Income Tax Act (Canada). (27:111)

3. The present capital and place-of-business taxes under The Corporations Tax Act be replaced by an annual corporate business tax of fixed amount payable, without any reduction for corporate income taxes, by every corporation now liable for the present taxes; and that the amount of the tax be fixed at the rate or rates

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needed initially to yield approximately the same revenue as derived from the present taxes. (27:125)

4. Upon entering into any agreement with the federal government for the federal collection of Ontario's corporate income taxes, the proposed annual corporate business tax be collected, together with the annual filing fee under The Corporations Information Act, by the Department of the Provincial Secretary. (27:125)

5. The special taxes under The Corporations Tax Act applicable to banks, railways, telegraph companies, express companies, sleeping car, parlour car and dining car companies be repealed, and such corporations be subject to the recommended annual corporate business tax. (27:133)

6. The provisions of the Ontario Corporations Tax Act relating to searches and seizures be amended to provide safeguards to protect the rights of a person whose property has been seized by giving him the right

(a) to apply to a court for a review of the action taken,

(b) to inspect and list the seized documents, and

(c) to obtain the return of seized documents upon the substitution, where practical, of properly identified, clear photo copies of such documents. (27:141)

7. Provisions be made in The Corporations Tax Act for a procedure to be followed when solicitor-client privilege is claimed in respect of documents that are demanded or seized. (27: 142)

8. The Corporations Tax Act provide that a prosecution for an offence under the Act must be commenced within five years from the day on which the matter of the information or complaint arose or within one year from the day on which an officer of the Branch first had sufficient knowledge to justify a prosecution for the offence. (27:144)

THE TAXATION OF WEALTH: DEATH AND GIFT TAXES

1. Except where a deceased was domiciled in another province of Canada at death, a beneficiary of the deceased who was ordinarily resident in Ontario throughout the twelve months preceding his death be made subject to Ontario succession duty in the same circumstances that he would be subject to duty if the deceased were domiciled in Ontario at death. (28:64)

2. The Government of Ontario make representations to the federal government to change its situs rules to conform with those in force in the provinces, failing which the Government of Ontario request a constitutional amendment allowing the Province to adopt situs rules identical with those contained from time to time in the Estate Tax Act. (28:69)

3. Tax credits be allowed from Ontario succession duty for taxes paid to another province of Canada or a jurisdiction outside Canada in respect of property

that under Ontario's situs rules was situated therein, and for 75% of federal estate tax in respect of property that under Ontario's situs rules was situated in a province that does not impose succession duty. (28:70)

4. Ontario take appropriate steps to eliminate double taxation resulting from differing interpretations of the common law situs rules that are made in other jurisdictions. (28:71)

5. The Succession Duty Act be amended so as to make it clear that any property in which the deceased had a life interest but which he did not own is not property passing on death. (28:72)

6. Upon the implementation of our recommendation for the imposition of a gift tax, Ontario adopt the test of "beneficial interest accruing by survivorship" as the method of valuing joint property regardless of source of contribution. (28:79)

7. Articles of ordinary household furnishings which pass to the surviving spouse or, where there is no spouse, to a qualified dependant with whom the deceased was living at the time of his death, be exempt from duty. (28:80)

8. For the purposes of The Succession Duty Act, property held in community that was contributed by the deceased be deemed to be property passing on death, and a debt created by a marriage contract be disallowed as a deduction in determining the aggregate value of an estate. (28:82)

9. Life interests be valued according to a modern standard mortality table, and at a compound interest rate that more closely reflects current rates of interest. (28:84)

10. The provisions of The Succession Duty Act permitting the life tenant of an estate to pay duties on an instalment basis be continued but

(a) the amount of each instalment of duty be computed, having regard to his expectancy of life according to the standard of mortality prescribed for the purpose and not to any fixed maximum number of years, and

(b) the amount be payable in equal annual instalments of duty and compound interest computed at the same rate as is used for determining the value of the life interest. (28:88)

11. Where a life tenant elects to pay his duties on an instalment basis, the instalment payments be payable for the duration of his life tenancy whether this be longer or shorter than the life expectancy upon which the instalments were computed. (28:89)

12. Where the life tenant has chosen to pay his duties by instalments and the duties payable by a remainderman have been computed and settled as at the date of death of the deceased, the remainderman's duties be recomputed when he falls into

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The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

possession, having regard to the actual duration of the life tenancy, and a refund be made or additional duties collected accordingly. (28:90)

13. The provisions of The Succession Duty Act permitting the life tenant of an estate to pay his duties within six months of the death of the deceased be continued, but

(a) no interest be allowed for paying at that time rather than by instalments, and

(b) the duties of the life tenant and those of any remainderman that were settled as of the death of the deceased not be recomputed upon the termination of the life interest. (28:91)

14. The Succession Duty Act provide the following rules for the computation and payment of duties where one or more beneficiaries have an interest in expectancy in the income of an estate that would fall into possession upon the decease of a preceding life tenant:

(a) If the primary life tenant elects to pay his duties by instalments, the duties be computed on the basis of the life expectancy of himself and those beneficiaries that have an interest in expectancy in the income that would be enjoyed after the death of a predecessor life tenant; and such instalments be paid by him for his lifetime and after his death by each succeeding life tenant for the period of his enjoyment;

(b) If the primary life tenant chooses not to pay his duties by instalments, the duties on an interest in expectancy be payable,

(i) within six months of the death of the deceased,

(ii) within six months of the date he commenced to enjoy his interest in expectancy, or

(iii) by equal annual monthly instalments of principal and interest payable for his lifetime and computed according to his life expectancy at the date he commences to enjoy his interest in expectancy.

as the beneficiary may elect;

(c) If the primary life tenant elects to pay his duties by instalments, the remainderman's duties be recomputed when he falls into possession, having regard to the actual duration of the life tenancies, and a refund be made or additional duties collected accordingly; and

(d) If a succeeding life tenant elects to pay his duties by instalments, the remainderman's duties be recomputed when he falls into possession, having regard to a duration of the life tenancies deemed to be the life expectancy of the primary life tenant plus the number of years that the tenancy was enjoyed by the succeeding life tenant. (28:93)

15. An annuity, pension or similar income contract be valued according to a modern standard mortality table and at a compound interest rate that more closely reflects current rates of interest. (28:96)

16. The provisions of The Succession Duty Act permitting the beneficiary of an annuity, pension or similar income contract to pay duties on an instalment basis be continued, but that

(a) the computation of the equal annual instalments of duty include compound interest at the same rate per annum as is used for determining the value of the contract,

(b) the amount of each instalment of duty in respect of a contract providing payments for life be computed having regard to the beneficiary's expectancy of life and not to any fixed maximum number of years,

(c) the amount of each instalment of duty in respect of a contract providing payments for a term certain be computed having regard to that term and not to any fixed maximum number of years, and

(d) such instalments be payable for each year during which payments are received under the contract and, where the contract provides payments for life, no further amounts of duty be payable upon termination of the contract before the beneficiary reaches the expectancy of life upon which the duty was computed. (28:97)

17. All payments made voluntarily on or after the death of a deceased employee in recognition of services rendered by him be dutiable, with provision for payment by instalments under those circumstances where instalments would be permitted according to our recommendation 28: 16 concerning annuities. (28:99)

18. Upon the implementation of our recommendation for the imposition of a gift tax, the proceeds from policies of life insurance payable as a result of the death of the deceased be deemed to be property passing on death only to the extent that the policies were owned by the deceased. (28:102)

19. For purposes of succession duty, statutory recognition be given to the present practice of making allowance for partial consideration in valuing property passing or deemed to pass on the death of the deceased. (28:103)

20. The Succession Duty Act be changed to exempt absolute dispositions made more than three years before the death of the deceased rather than five years, as at present. (28:107)

21. The affidavits of executors and beneficiaries be required to include only those absolute dispositions made within three years of death of the deceased and dispositions not to the exclusion of the donor, whenever made. (28:108)

22. The amount of any gift tax payable by the deceased in his lifetime be dutiable to the extent that it is recoverable as a deduction from federal estate tax or provincial succession duties or by way of refund of gift tax. (28:109)

23. A disposition be valued as at the date of the disposition. (28:110)

24. The Act require that as a general principle all dutiable property be valued at its fair market value. (28:111)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

25. The executor or administrator of an estate be given statutory authority to elect, on behalf of the beneficiaries collectively, that dutiable property and transmissions be valued as at 150 days after the date of death, except that assets sold before that date to persons with whom the executor was dealing at arm's length be valued at the amounts realized on their sale. (28:115)

26. Appropriate provision be made for adjusting or refunding duties when a liability, including a liability that was contingent at the death of the deceased, becomes payable after the duties have been settled, provided the liability or liabilities so payable exceed $1,000. (28:121)

27. All expenses in connection with the death and funeral of the deceased that are paid from the estate be treated as deductions in computing aggregate net value. (28:122)

28. Amounts paid, not exceeding the standard tariff of the applicable county law association, for legal services in preparing application for and obtaining probate or letters of administration, preparing succession duty and estate tax returns, and preparing notarial copies of letters probate or letters of administration, be allowed as deductions. (28:123)

29. (a) Dispositions to *bona fide* religious, charitable and educational organizations made within three years of the death of the deceased be included in the aggregate net value of an estate;

(b) bequests to *bona fide* religious, charitable and educational organizations not be deductible in computing the aggregate net value of an estate; and

(c) such dispositions and bequests be exempt from duties to the extent of the amounts actually paid or payable to such organizations outside Canada as may be prescribed by the Lieutenant Governor in Council and to all such organizations in Canada. (28:127)

30. All the present provisions in The Succession Duty Act for giving preferential treatment to relatives and dependants of the deceased be repealed. (28:133)

31. For succession duty purposes, the widow or widower of the deceased be allowed an exemption of $75,000. (28:137)

32. For succession duty purposes, in the absence of an exemption to a spouse, the same exemption as for a spouse be given to a person who, during the five years prior to the death of the deceased, resided with him, was dependent upon him and managed his household without remuneration. (28:138)

33. For purposes of succession duty, a child of the deceased under twenty-one years of age at the death of the deceased be allowed an exemption of $25,000, and that an older child of the deceased be allowed an exemption of

$22,000 if 21 years of age,
19,000 if 22 years of age,
16,000 if 23 years of age,
13,000 if 24 years of age, and
10,000 if 25 years of age or more. (28:141)

34. For purposes of succession duty, a person be allowed an exemption of $25,000, if he was at the death of the deceased wholly dependent upon the deceased for support by reason of mental or physical infirmity, and in respect of whom the deceased was entitled to a dependant's exemption under the Income Tax Act (Canada) for the taxation year ending with his death and the taxation year preceding that year. (28:142)

35. For purposes of succession duty, a child of the deceased who has no surviving parent and who had been wholly dependent upon the deceased for support, and in respect of whom the deceased was entitled to a deduction for an exemption under the Income Tax Act (Canada) for the taxation year ending with his death and the taxation year preceding that year, or would have been so entitled if the dependant had then been born, be allowed an additional exemption equal in amount to his normal exemption, provided that if the aggregate of all such additional exemptions to all such children of the deceased would otherwise exceed $75,000, the additional exemption for each such child be reduced proportionately so that the additional exemptions aggregate $75,000. (28:143)

36. For purposes of succession duty, a grandchild whose deceased parent was a child of the deceased be allowed the greater of any other exemption to which he may be entitled and the exemption that would have been allowed to his parent had the parent been living and sharing in the estate of the deceased, provided that if there are more than one such grandchildren the exemption that would have been allowed to the parent be divided among all such grandchildren. (28:144)

37. For purposes of succession duty, the spouse of the deceased be allowed an additional exemption equal to the aggregate of the unused portions of the exemptions to which the spouse's dependent children were entitled. (28:145)

38. For purposes of succession duty, the aggregate of the exemptions allowed to a beneficiary be deductible in computing the *net taxable value* of the benefits received by him but not in computing the *aggregate net value* of the estate. (28:147)

39. For purposes of succession duty, all of the present exemptions in respect of small amounts of property passing and small transmissions and dispositions be abolished and there be enacted an exemption for dispositions made in any one year to any one person that do not exceed $1,000. (28:148)

40. For purposes of succession duty,

(a) a deduction of $6,000, be allowed in computing the aggregate net value of each estate, being an amount equal to the aggregate deduction allowable for gift tax in the three years prior to the death of the deceased;

(b) a deduction be allowed in computing the net taxable value on which a beneficiary is liable for duties of that portion of $6,000 that is reasonably apportionable to him; and

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(c) each beneficiary be given a tax credit equal to the amount of gift tax paid or payable by the deceased with respect to gifts made to him by the deceased that are included in the aggregate value of the estate of the deceased. (28:151)

41. The duties payable by a beneficiary be computed as follows:

(a) determine a basic duty by applying a schedule of rates to the aggregate net value of the estate;

(b) determine the beneficiary's rate computed as the average rate of basic duty as a percentage of the aggregate net value of the estate, or 50 per cent, whichever is the lesser;

(c) apply the beneficiary's rate to the net taxable value of the property passing to the beneficiary; and

(d) in the event that the federal estate tax is continued, reduce the resultant amount of Ontario duties by a percentage equivalent to the unabated portion of the federal estate tax. (28:166)

42. A schedule of rates of basic duty be adopted with rates that are progressively higher for each successive additional portion of aggregate net value ranging from 15 per cent to 55 per cent. (28:166)

43. The present provisions of The Succession Duty Act relating to the filing of affidavits be amended

(a) to require a beneficiary to include in his affidavit only particulars of all dispositions made to him and property passing to him or to his benefit other than under the will of the deceased or under The Devolution of Estates Act;

(b) to designate the affidavit of the executor or administrator the "Succession Duty Return"; and

(c) to require the affidavits of the executor or administrator and the beneficiaries to be filed within six months of the death of the deceased. (28:170)

44. The executor or administrator of an estate be given specific statutory power to sell all or part of the property included in any bequest to a beneficiary if the beneficiary is unable or unwilling to pay the duties on his bequest. (28:176)

45. The right of the beneficiary of an interest in expectancy to defer payment of duties until he falls into possession be continued. (28:178)

46. The prohibition against opening or permitting the opening of a safety deposit box or other repository be restricted to one that belongs to or stands in the name of the deceased or his spouse, either alone or jointly with another person, or to which either one of them had access; and a person who permits the opening of such box or repository without knowledge of the death of the deceased be not liable for prosecution. (28:183)

47. An officer of each branch of a financial institution that leases safety deposit boxes be appointed an agent of the Treasurer for the purpose of examining and listing the contents of any box where the Treasurer's consent to its release is required. (28:184)

48. The Treasurer be required to issue within a specified reasonable time consents to transfer assets when either the duties have been paid or adequate security for payment has been lodged. (28:185)

49. Penalties not apply to persons who, with reasonable care, have dealt with assets of the deceased under circumstances in which they were unaware of the death or of the beneficial interest of the deceased in such assets. (28:186)

50. The statutory authority to allow postponement of duty given to the Lieutenant Governor in Council under Section 23 of The Succession Duty Act be transferred to the Treasurer of Ontario. (28:196)

51. If the government finds that special succession duty treatment is desirable in the interests of woodland conservation, executors and administrators of estates be given the right to elect under specified conditions to pay the duty on timber, based on its value at the time of death, as it is cut or sold. (28:198)

52. The statute provide that the Treasurer be required to issue with due dispatch a notice of assessment of duty to each person who benefits from an estate or from dispositions by the deceased, whether duty is payable by him or not, and that a duplicate of each such notice be issued to the executor or administrator of the estate. (28:203)

53. A beneficiary subject to duties on Ontario property and dispositions from a deceased who was neither domiciled nor resident in Ontario be assessed duties on the aggregate net value thereof without reduction for exemptions, unless all such beneficiaries and the executor or administrator of the estate elect that duties be computed in the ordinary manner, in which event the exemptions for each beneficiary be the proportion of the normal exemptions that the aggregate net value of property and dispositions dutiable to him in Ontario is of the aggregate net value of all property and dispositions by which he benefited. (28:208)

54. All dividends having an Ontario situs declared but not paid prior to the death of a deceased who was neither domiciled nor resident in Ontario be exempt from succession duties. (28:209)

55. Ontario introduce a gift tax applicable to individuals and personal corporations with the same rate structure as recommended for succession duties, and that:

(a) a gift to any government in Canada be exempt;

(b) gifts to recognized charitable, educational or religious organizations be exempt;

(c) gifts made by an individual in the year to any one person not exceeding $1,000 in the aggregate be exempt;

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

(d) a general exemption of $2,000 be allowed each year to an individual with respect to otherwise taxable gifts;

(e) gifts used directly or indirectly to pay a premium on any contract of insurance on the life of the donor be excepted from the exemptions in (c) or (d) above; and

(f) gifts that would be exempt under (d) and gifts exceeding $1,000 in the year to any one organization that would be exempt under (b) be included in the aggregate value for purposes of determining the rate of taxation, but be excluded from the net taxable value subject to the tax. (28:222)

56. Ontario make representations to the Government of Canada to withdraw from the death tax field on the understanding that Ontario succession duty returns and files would be made available to federal officials for income tax purposes. (28:225)

THE RETAIL SALES TAX

1. All food products for human consumption, excluding prepared meals and alcoholic beverages, be exempt from retail sales tax. (29:53)

2. Each commercially prepared meal sold for more than $1.50 be taxed regardless of the place where it is consumed. (29:60)

3. The present exemptions from sales tax be reviewed and revised so that:

(a) all purchases of machinery, equipment and other goods that enter into the direct costs of manufacturing and producing will be exempt; and

(b) purchases of all goods entering into indirect costs of manufacturing and producing will be taxable. (29:67)

4. The present provision exempting all sales of less than 21¢ be amended to exempt sales of less than 11¢. (29:73)

5. The present exemption from sales tax for draft beer sold by the glass on licensed premises be repealed. (29:74)

6. All exemptions of tangible personal property purchased by or for schools, school boards, universities, hospitals, nurses' residences, religious institutions, Ontario municipalities and publicly supported galleries and museums, and the exemption for buses purchased for public transportation within a municipality be repealed. (29:78)

7. The exemption of books, magazines, periodicals and religious and educational publications be repealed. (29:79)

8. The exemption of students' supplies be repealed. (29:80)

9. The Retail Sales Tax Act be amended so as to impose tax on an appropriate list of services other than

(a) educational, medical, dental, health, funeral and transportation services,

(b) services the dominant use of which is made by business firms,

(c) repair and maintenance of real property, and

(d) services that cannot be conveniently taxed. (29:93)

10. The Ontario retail sales tax audit staff be enlarged sufficiently to ensure an adequate enforcement program. (29:105)

11. Ontario discontinue the payment of remuneration to vendors for the collection of the retail sales tax. (29:108)

12. The Province be made a preferred creditor rather than a secured creditor with respect to sales taxes not collected by a bankrupt vendor but for which he has been assessed. (29:109)

13. The provision in The Retail Sales Tax Act giving the Comptroller authority to determine the fair value of taxable property be repealed. (29:110)

14. The definition of "use" in The Retail Sales Tax Act be changed to exclude storage of goods that are held for resale. (29:112)

15. The deposit or bond of 3 per cent of the total contract price required of non-resident contractors carrying out a contract in Ontario be revised to relate more closely to the proportion of construction contract prices ordinarily represented by sales tax. (29:113)

16. The definition of non-resident contractors be changed to exclude corporations that are incorporated in Ontario. (29:114)

17. Rentals and tangible personal property be taxable except on the amounts provided therein for

(a) property and services on which the lessor was subject to tax, and

(b) interest and other financing costs. (29:115)

18. The present exemption for gifts be enlarged to exempt from retail sales tax all gifts from one individual to another, including those made by way of transactions for inadequate consideration. (29:116)

19. The Government of Ontario negotiate with the other provincial governments to establish more effective means of collecting sales tax on goods sold in one province that are delivered to customers in another province. (29:120)

20. The Government of Ontario, together with the other provincial governments, negotiate with the federal government to obtain its agreement to collect on behalf of the provinces provincial sales taxes upon the importation of goods into Canada. (29:121)

MOTOR VEHICLE REVENUES

1. The remuneration for collecting fuel taxes paid to "collectors" under The Gasoline Tax Act and to "registrants" under The Motor Vehicle Fuel Tax Act be gradually eliminated over the next five years. (30:15)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

2. The retail sales tax be levied on gasoline and other motive fuel, on a price base that includes any fuel tax that is applicable. (30:21)

3. Any fuel tax paid on motive fuel for any use other than that of propelling a vehicle on a public road be wholly refundable, and any sales tax thereon

(a) be wholly refundable when paid by farmers or commercial fishermen, and

(b) be refundable to the extent based on the refundable amount of fuel tax when paid by others. (30:27)

4. The licensing fees for all commercial vehicles owned by municipalities, school boards, local boards and commissions be set at the same levels as the fees for privately owned vehicles. (30:41)

5. The fee for licensing trolley buses be raised from the present flat $2 to at least the standard rates that apply to motor buses. (30:44)

6. The fees charged for operating licences under The Public Commercial Vehicles Act and The Public Vehicles Act be set at a level such that the revenue derived will approximate the costs incurred in administering these two Acts. (30:53)

7. The fees for the various categories of garage licences be reduced to a level such that the revenue derived will approximate the cost of licensing. (30:58)

8. The transfer fee charged to purchasers of motor vehicles be reduced to a level such that the revenue derived will approximate the cost of registering the transfers. (30:59)

9. Toll charges for the use of the Burlington and the Garden City Skyways be eliminated. (30:79)

10. The licence fee for passenger vehicles, dual-purpose vehicles and trucks weighing less than 2½ tons gross weight be set at a flat rate of $25, and the licence fee for trucks from 2½ to 3 tons gross weight be raised to $30. (30:107)

OTHER PROVINCIAL TAXES

1. The Hospitals Tax Act be repealed and all expenditures on amusements and entertainment be taxable under the retail sales tax. (31:32)

2. The tax, on a person holding a horse racing meeting, of $1 for each day of racing, be abolished. (31:47)

3. The security transfer tax be abolished, and commissions charged by security dealers and brokers for their services be taxable under the retail sales tax; and for this purpose, where no commission is charged by a security dealer or broker, a reasonable commission be deemed to have been charged. (31:61)

4. The land transfer tax be abolished and that commissions charged for services by real estate agents be made subject to the retail sales tax. (31:71)

5. The tax on fire insurance premiums imposed under The Fire Marshals Act be abolished. (31:84)

REVENUE FROM MINES

1. (a) The profits tax under The Mining Tax Act be revised so as to impose on the profits of a mine derived from both mining and processing operations a two-stage tax consisting of

   (i) a flat-rate Mines Services Tax from which payments to designated mining municipalities and other public service expenditures related to mining would be financed, and

   (ii) a flat-rate Mines Profits Tax which would yield an appropriate return for the use of Ontario's mining resources.

   (b) The profits subject to the Mines Profits Tax be the profits subject to the Mines Services Tax less the Mines Services Tax and the deductions hereinafter recommended by us. (32:61)

2. No basic exemption be allowed with respect to the profits subject to either the proposed Mines Services Tax or the Mines Profits Tax. (32:64)

3. Payments to gold mines under the Emergency Gold Mining Assistance Act be excluded from the computation of profits subject to the proposed Mines Profits Tax. (32:71)

4. The provision permitting the Minister of Mines to remit the mining tax on iron ore smelted in Canada be repealed. (32:73)

5. (a) The base for computing the investment allowance, deductible from profits subject to the proposed Mines Profits Tax,

   (i) include the gross investment of the mine operator at the end of the taxation year in all assets acquired for the purpose of the mining and processing operations, as well as the unamortized portion of exploration and development expenditures, and

   (ii) exclude the investment in mining lands or any interest in mining lands.

   (b) For the purpose of computing the allowance, the investment of the mine operator in unamortized exploration and development expenditures and in depreciable property be the cost thereof less amounts deducted, deductible or deemed to have been deducted by way of amortization or depreciation in the taxation year and in prior taxation years. (32:81)

6. So long as Ontario continues to exempt processing profits from mining tax,

   (a) the general processing allowance be determined in accordance with provisions in The Mining Tax Act or Regulations thereunder, and that the formula be revised so as to compute the allowance on the written-down value rather than the original cost of assets used for processing, without any minimum or maximum limitation of the allowance based on combined mining and processing profits, and

   (b) the special processing allowance to nickel mines be abolished. (32:90)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

7. The profits subject to the proposed Mines Services and Mines Profits Taxes be reduced by depreciation allowances on depreciable assets employed in mining and processing at the rates now set out in the Act, provided that where it can be demonstrated that the life of the mine is less than 6⅔ years, the Lieutenant Governor in Council may, upon the recommendation of the Minister of Mines, allow a greater rate based upon the expected life of the mine. (32:95)

8. All expenses allowable for income tax purposes, with the exception of interest and financing costs, royalties and rentals in respect of mining lands or rights other than those payable to the Crown, municipal property taxes and allowances for depletion of a mine, be allowable in computing profits of a corporation subject to the proposed Mines Services and Mines Profits Taxes, in whole if the corporation had no other business activity or source of income, and to the extent reasonably apportionable to the business of mining and processing if it did have another business activity or source of income. (32:96)

9. The profit subject to the proposed Mines Profits Tax be reduced by the amount of taxes paid by the mine operator to all municipalities and school boards on non-exempt property used directly or indirectly for the purposes of deriving income from mining or processing. (32:99)

10. (a) The profits subject to the proposed Mines Profits Tax be mandatorily reduced by the amount of expenditure on exploration in Ontario incurred in the year, and incurred in previous years but not deductible in such years, but that such deduction be limited to the amount of profits otherwise subject to the tax;

(b) the profits subject to both the proposed Mines Services Tax and the proposed Mines Profits Tax be reduced by an annual allowance of 10 per cent of expenditures on mine development in Ontario, which, at the option of the mine operator, may be increased to a rate not exceeding 20 per cent, provided that where it can be demonstrated that the life of a mine is less than five years, the Lieutenant Governor in Council may upon the recommendation of the Minister of Mines allow a greater rate based upon the expected life of the mine; and

(c) the above allowances be deductible from the combined profits of all mines operated by the taxpayer in Ontario, but that the allowance for mine development expenditures not commence until the year that the mine for which the expenditures are incurred comes into production in reasonable commercial quantities. (32:114)

11. For the purpose of computing the deductions from profits for exploration and development, and the investment allowance, a mine operator who has incurred exploration expenditures and expenditures for the development of a mine that had not come into production in reasonable commercial quantities at the effective date of the revised system of taxation which we recommend, or that had come into

production in the four-year period prior to the effective date, be deemed to have been allowed in respect of such expenditures in the period prior to the effective date of the new system the greater of

(a) the amounts actually deducted in the computation of his mining tax under the old system, or

(b) 20 per cent for the year that the mine came into production and 20 per cent for each year thereafter prior to the effective date of the new system. (32:117)

12. The profits subject to the proposed Mines Profits Tax be reduced by losses from mining and processing incurred in the five preceding and the two succeeding taxation years, to the extent that profits of any preceding taxation year have not already been reduced by such losses, but that such deduction be limited to losses, excluding an investment allowance, incurred in the fiscal year that the proposed system becomes effective and in subsequent years. (32:121)

13. The proposed Mines Services Tax be established at the flat rate required to yield an amount approximately equivalent to the aggregate of the payments to be made by the Province to designated mining municipalities, and the proposed Mines Profits Tax be established initially at the rate of 12 per cent. (32:130)

14. The administration of The Mining Tax Act be transferred from the Department of Mines to be proposed Department of Revenue. (32:135)

15. Pending any revision of the structures of Ontario mining tax and federal income tax, Ontario press the federal government for a change in Regulation 701 under the Income Tax Act so that mining taxes, except to the extent that they are imposed on processing profits or other income which is not derived from mining, will be fully deductible from income for federal income tax purposes. (32:141)

16. Upon the adoption of the revised system of taxing mining profits recommended by us, Ontario press the federal government to make such changes in Regulation 701 under the Income Tax Act that all of the mining tax payable by Ontario mines will be deductible for income tax purposes. (32:142)

17. The rate of acreage tax on mining lands be set and maintained at such level as is needed to perform the function of discouraging the holding of mining lands without the performance of adequate exploration, development or mining work. (32:152)

18. Rentals on leased mining lands and mining rights be set on the basis and at the rates recommended by the Select Committee on Mining of the Ontario Legislature or at such higher level as is needed to perform the function of discouraging the holding of mining lands and rights without the performance of adequate exploration, development or mining work. (32:156)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

REVENUE FROM FOREST RESOURCES

1. The present ground rent and fire protection charges on Crown lands be abolished and replaced by tenure charges fixed at rates per foot of allowable cut based on sound principles and on further study by the Department of Lands and Forests. (33:35)

2. The Department of Lands and Forests make appropriate adjustments in the rates of Crown dues so that combined tenure charges and Crown dues per cubic foot cut by a licensee, whose actual cut is equal to his allowable cut, will approximate the amount of such combined charges under present rates. (33:37)

3. With respect to privately owned forest land, fire-protection charges be reviewed and set on a cost-recovery basis. (33:39)

4. In the negotiation of general federal-provincial fiscal agreements, Ontario offer to repeal The Logging Tax Act in return for an additional share of income taxes imposed upon taxpayers engaged in logging that approximates the present net return to Ontario from the existing logging tax arrangement, and, pending such repeal, The Logging Tax Act be amended by the enactment of loss-carry-over provisions similar to those included in the federal Income Tax Act and The Corporations Tax Act of Ontario. (33:46)

REVENUE FROM OTHER NATURAL RESOURCES

1. In accordance with the general principles that we have developed for the taxation of mines, the tax on production of natural gas be changed to a uniform flat-rate profits-based tax, equivalent to 12 per cent of the economic rent accruing to the producer. (34:6)

2. The proposed profits-based tax on a producer of natural gas be reduced by an amount equivalent to 75 per cent of the rentals or royalties payable under leases from the Province of the lands from which the production is derived. (34:9)

3. A tax be introduced on the profits derived from oil production on the same basis, at the same rate and with the same relief to operators on Crown lands as recommended for natural gas production. (34:11)

4. A review be made of the terms and rates of hunting and fishing licences. (34:32)

REVENUE FROM ALCOHOLIC BEVERAGES

1. The Liquor Control Board of Ontario be instructed to bring its mark-up on so-called "low-priced" Canadian spirits into line with the mark-ups that it applies to other Canadian spirits. (35:33)

2. The Liquor Control Board of Ontario apply the same mark-up to the cost of an imported spirit, wine or malt beverage as is used for the corresponding class of domestic product. (35:34)

3. The Liquor Control Board of Ontario purchase Ontario wines at prices no higher than those dictated by market forces. (35:35)

4. The licence fees at present levied on breweries and wineries be altered so that the revenue will approximate the costs of licensing and inspection. (35:37)

5. The tax on winery store sales be adjusted so that the rate of provincial revenue from sales of domestic wine in winery and Liquor Control Board stores will be equated to the extent possible without the wineries being deprived of a reasonable rate of return from their retailing operations. (35:38)

6. The gallonage tax on breweries be set at a single rate per gallon for all beer produced and sold in Ontario. (35:41)

7. The price of beer to home consumers and licensed premises be made uniform. (35:44)

8. The licence charge based on beer consumption be set at a single rate applicable to all types of licensed premises. (35:47)

9. After thorough study by the Liquor Licence Board, liquor licence fees be set on a basis such that in addition to covering all issuing and regulatory costs, they will appropriate to the Province any monopolistic profits that the licensing system has made possible. (35:48)

10. The financial basis of the agreements whereby municipalities receive payments from the Liquor Licence Board be adjusted so that such payments will reflect as closely as possible the cost to the municipalities of enforcing The Liquor Control Act and The Liquor Licence Act. (35:49)

11. The transfer fees now in effect for liquor licences be abolished and replaced by a flat fee to yield an amount not exceeding the administrative costs to the Liquor Licence Board of effecting and regulating transfers. (35:52)

12. The fee structure now in effect for special occasion permits be abolished and replaced by a flat fee that will yield an amount not exceeding the administrative costs borne by the Liquor Licence Board in issuing the permits. (35:54)

13. There be instituted specific procedures for transferring to the Treasury on a regular basis the surplus cash held by the Liquor Control Board of Ontario. (35:56)

14. In accounting for its assets, the Liquor Control Board of Ontario adopt the depreciation methods that normally apply in private business. (35:59)

15. The Liquor Control Board of Ontario be directed to institute a program of continuing research into the revenue and other effects of changes in the prices of spirits, wine and beer . (35:87)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

16. The Government of Ontario, through the Liquor Control Board of Ontario and the Alcoholism and Drug Addiction Research Foundation, seriously study the feasibility of establishing a price structure that would take as its primary basis the alcoholic content of different types of alcoholic beverages. (35:90)

17. Representations be made to the federal government for closer federal-provincial co-ordination of revenue policies relating to alcoholic beverages. (35:91)

PROVINCIAL GOVERNMENT ENTERPRISES

1. The Power Commission Act be amended

(a) to define cost of power so as to be consistent with generally accepted accounting practices, and

(b) to require billing at cost plus a profit margin not exceeding, except with the approval of the Lieutenant Governor in Council, a specified percentage of the cost. (36:17)

2. Government-owned business enterprises be subject to income taxes under the Ontario Corporations Tax Act. (36:21)

3. The Province consider discontinuing its practice of guaranteeing the securities issued by those public enterprises whose offerings can be sold readily in the open market on acceptable terms. (36:23)

OTHER NON-TAX REVENUES

1. The Financial Administration Act be amended to require that there be tabled in the Legislature a quinquennial review explaining the nature and level of all fees charged by the government. (37:9)

FINANCING HOSPITAL AND MEDICAL CARE

1. Ontario negotiate the withdrawal of the federal government hospital construction grant program for Ontario hospitals in return for further tax room or abatement sufficient for Ontario to assume the responsibility on an adequate basis. (38:29)

2. Ontario hospital construction grants be changed from a per-bed basis to a percentage of approved construction cost basis. (38:30)

3. Ontario hospital construction grants be broadened to cover the costs of constructing the portions of the hospital which are to be used for administration and servicing. (38:31)

4. The Ontario Hospital Services Commission allow hospitals to include in reimbursable operating costs an annual amount sufficient to amortize over a reasonable period the cost of renovations, alterations or other major repairs that are not recovered through major renovation grants and that would result in commensurate operational savings. (38:32)

5. Upon implementation of the two preceding recommendations, Ontario discontinue construction grants for special rehabilitation facilities and tuberculosis sanatoria. (38:33)

6. Ontario negotiate the withdrawal of the federal government hospital operating grant program for Ontario hospitals in return for tax room or abatement sufficient for Ontario to assume the responsibility on an adequate basis. (38:42)

7. Ontario negotiate the withdrawal of the federal health grants program in Ontario in return for tax room or abatement sufficient for Ontario to assume the responsibility on an adequate basis. (38:48)

8. Premium rates for the Hospital Care Insurance Plan be maintained at a level to yield roughly one-third of the total financial resources required to meet operating costs. (38:71)

9. Consideration be given to replacing the present two-tier premium structure of the Hospital Care Insurance Plan with a three-tier structure comparable to that of the Ontario Medical Services Insurance Plan. (38:72)

10. When future changes in premium levels become necessary, consideration be given to incorporating into the Hospital Care Insurance Plan a scheme of subsidized premiums comparable to that in the Ontario Medical Services Insurance Plan. (38:74)

PROVINCIAL DEBT POLICY TO 1975

1. As a partial solution to its projected annual expenditure-revenue gaps, the Province permit a modest expansion of its net debt at a rate at least equal to the growth in provincial domestic product. (40:8)

2. In any given period, provincial policies concerning appropriate levels and composition of taxation and expenditures be consciously directed towards the objective of moderating cyclical fluctuations within the Ontario economy. (40:11)

The numbers in brackets following each recommendation refer to the chapter and paragraph where it is made.

Chapter 8

Fiscal Effects of the Recommendations: Prescription for Future Needs

INTRODUCTION

1. The three hundred and fifty or so recommendations listed in the preceding chapter can be broken down into four categories. First, there are recommendations whose impact on provincial and local finance is direct and measurable. In this category, for example, are the recommendations that would subject services to sales taxation, remove the property tax exemption of institutions of higher learning, provide a new unconditional grant to municipalities, or introduce a revised provincial mining tax. Second, there are a number of recommendations whose impact on provincial and local finance is direct, but defies measurement at this time. Thus, for instance, the province-wide reassessment we recommend will directly affect property tax yields and the relative burden of the tax on different classes of taxpayers, but its outcome cannot be quantified because of the widely diverging assessment practices that now prevail in Ontario municipalities. Third, there are recommendations that affect neither the base nor the rates of taxes and grants, but that are bound to have indirect effects on provincial and local finance. Included in this category are such important recommendations as those that seek the creation of regional governments and those that look to a more effective and

equitable tax appeals system. Fourth, there are a number of recommendations that seek to enhance the equity and efficiency of the revenue system through purely structural and administrative means. A uniform fiscal year for provincial and local governments, and improved financial reporting by all governmental authorities are examples.

2. This chapter deals only with recommendations in the first category, that is, those whose impact on provincial and local finance is direct and measurable. Its task is to lay before the reader the financial impact of the direct and quantifiable recommendations made in Volumes II and III, and, on the basis of their consequences, to outline certain other measures affecting in particular the level of school grants and of provincial tax rates. Taken together, these measures provide the means necessary to meet provincial and local requirements, both now and for the foreseeable future, which under our projections is the year 1974-75. They are based on two most important assumptions: that there will be no new expenditure commitments other than those arising from the re-allocation of provincial-local spending responsibilities we suggest, and no changes in federal-provincial fiscal arrangements. Of themselves they do not constitute in the words of our terms of reference, a "tax and revenue system [that] is as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised". The development of this system, as we see it, hinges as well upon our many recommendations whose fiscal effects are either immeasurable or indirect, and on future patterns of federal-provincial negotiation. What we consider in this chapter, therefore, is only the mix of tax, grant and debt policies that, in our judgment, can best meet provincial and local fiscal requirements under prevailing federal-provincial arrangements in the light of the quantitative data available to us.

3. The material that follows is organized in three parts. In the first, we develop our best estimates of what the financial picture would have been in 1966-67 had the changes we contemplate been in effect. Because this exercise can be based in large part on actual data, it enjoys the greatest degree of accuracy possible at this time. The second part of the chapter, which is subject to a considerably wider margin of error than the first, attempts to outline the fiscal consequences of our recommendations from the first fiscal year in which they could take effect—that is to say, 1968-69—to the last year for which we have made projections, 1974-75. In the third and final part, we offer a commentary on our over-all sketch of the Ontario fiscal scene with particular reference to the broad context of federal-provincial fiscal arrangements and to adjustments in these arrangements which, if successfully negotiated, might modify the impact of the revenue measures we have had to contemplate.

THE FISCAL SCENE IN 1966-67

4. Table 8:1 launches our attempt to reconstruct the fiscal year 1966-67 in the light of our quantifiable recommendations. This Table shows our estimates of the fiscal impact of the measurable recommendations that affect local government. All recommendations whose fiscal effect is shown in the Table are developed in Volume

II, save for our recommendation extending the sales tax to all tangible personal property purchased by local authorities, made in Volume III.

TABLE 8:1

THE FISCAL EFFECT ON LOCAL GOVERNMENTS, HAD RECOMMENDATIONS MADE IN VOLUMES II AND III BEEN EFFECTIVE IN 1966

(millions of dollars)

Actual Tax Levies (Estimated)		960
Deduct:		
Reduced expenditure from provincial assumption of the administration of justice	15	
Increased revenue from new unconditional grant to municipalities	32	
All other changes in grants to municipalities (net)	15	
	62	
Less sales tax payable by local governments	15	47
Revised Revenue Requirement		913
Deduct:		
Increase in provincial payments in lieu of tax on previously exempt property	38	
Basic shelter exemption grant	111	149
Revised Levy on Local Property Taxpayers		764
Local Debt Outstanding at End of Fiscal Year		1,997
Deduct:		
Reduction in borrowing because of revised school capital grants		35
Revised Local Debt (Including separate school debt of $162 million)		1,962

5. The first figure in the Table, $960 million, is our calculation of the amount of tax actually levied on property in 1966. From this amount we subtract $62 million, which represents the reduction in claims on the property tax occasioned by our recommendations that the Province assume complete jurisdiction over the administration of justice at an estimated cost of $15 million, pay a new unconditional grant yielding approximately $32 million more than the one in force in 1966-67, and rationalize existing conditional grants to municipalities with a net increase in aid of about $15 million. The $62 million reduction is then offset by an increase of $15 million in local government outlays occasioned by the removal of their sales tax exemption on purchases of tangible personal property to yield a revised local revenue requirement of $913 million. It is on the basis of this $913 million requirement that local governments would have struck their mill rates had the quantifiable recommendations made in Volumes II and III been in effect in 1966-67.

6. Under our recommendations, $913 million would of course not be the

amount effectively levied on local property taxpayers. This is because the $913 million would be applicable to governmental and institutional properties henceforth liable for full provincial payments in lieu of tax, and also because the Province, through the basic shelter exemption grant, would pay either the tax levied on the first $2,000 of the provincially equalized taxable assessment of each self-contained residential property, or 50 per cent of the tax, whichever is less. To take account of these measures, Table 8:1 deducts from the $913 million a total of $149 million, which is the sum of our estimates for the additional payments in lieu of tax by the Province ($38 million) and the provincial basic shelter exemption grant ($111 million). The residue, $764 million, represents the effective 1966 levy under our recommendations on all classes of local property taxpayers. The reduction in the burden on these taxpayers is accordingly in the order of 20 per cent.

7. The concluding figures in Table 8:1 cover the effects of the recommendations on the debt position of local governments. The $1,997 million appearing in the Table is our estimate of the actual debt carried by these governments at the close of the 1966 fiscal year. It can reasonably be assumed that none of the changes giving rise to the revised effective levy on property taxpayers would have altered the debt position of these governments.[1] At this point, however, we can introduce the financial effect on local government of a final quantifiable recommendation not yet taken into account. We refer to a revised grant policy toward school capital expenditures whereby the Province, from the year of implementation, would make once-and-for-all grants on capital costs at the time they are incurred. This recommendation would not affect grant recognition of debt charges on behalf of borrowing undertaken prior to the year of implementation, but would substantially reduce local borrowing from that year on. The $35 million shown in the Table represents our estimate of this reduced local borrowing for 1966, and leaves a revised figure for outstanding local debt under our recommendations of $1,962 million, including separate school debt of $162 million.

8. Turning now to Table 8:2, the scene shifts from the local to the provincial level of government.[2] To our calculation of actual provincial expenditure in 1966-67, $1,929 million, are added all the items of increased provincial aid, including school capital grants, shown in Table 8:1. Amounting to $246 million, these items yield a revised provincial expenditure total of $2,175 million. On the revenue side, actual revenue estimated at $1,789 million is increased by $132 million, being the sum of $128 million additional revenue from the revised sales tax base and a net of $4 million from all other tax changes, to produce revised

[1]The only recommendation in this category that could potentially affect local government debt is the one relating to the provincial assumption of all responsibility for the administration of justice. There would be an effect on debt inasmuch as local governments had financed in 1966 the construction of new court houses and jails through debentures. Under our recommendation, such construction would no longer entail local outlays, but we are unable to estimate the consequent amount of debt reduction, if any, for 1966.

[2]This shift involves a time discrepancy in that the provincial fiscal year begins and ends three months after that of local governments. We have chosen to ignore this discrepancy, since its effect on the magnitudes under discussion is marginal.

TABLE 8:2

THE FISCAL EFFECT ON THE PROVINCIAL GOVERNMENT, HAD RECOMMENDATIONS MADE IN VOLUMES II AND III BEEN EFFECTIVE IN 1966-67.*

(millions of dollars)

Expenditure				
Actual Expenditure (Estimated)†		1,929		
Add proposed increases:				
Administration of justice	15			
New municipal unconditional grant	32			
Other municipal grants (net)	15			
Payments in lieu of taxes	38			
Basic shelter exemption grant	111			
New school capital grants	35	246		
Revised Expenditure		2,175		
Revenue				
Actual Revenue (Estimated)		1,789		
Add:				
Additional revenue from new sales tax base	128			
All other revenue changes (net)	4	132		
Revised Revenue		1,921		
Deficit				
Actual Deficit (Estimated)		140		
Net effect of changes set out above		114		
Revised Deficit		254		
Net Capital Debt			*Actual*	*Revised*
Net Capital Debt April 1, 1966			1,514	1,514
Add:				
Deficit for year ended March 31, 1967			140	254
Net Capital Debt March 31, 1967			1,654	1,768

*Expenditures, revenue deficit and debt reflect advances to the universities through the Ontario Universities Capital Aid Corporation and payments for debt service by the universities to O.U.C.A.C.

†Derived from Budget Statement of the Treasurer of Ontario, 1967.

provincial revenues of $1,921 million. The net effect of all revenue and expenditure changes adds $114 million to the $140 million deficit actually sustained in 1966-67 for a revised provincial deficit of $254 million. Net provincial capital debt as of the end of the fiscal year is $1,768 million in contrast to the actual figure of $1,654 million.

9. So much for the fiscal effect on provincial and local governments of the quantifiable recommendations made in Volumes II and III. In a nutshell, they have made possible a reduction of 20 per cent in the effective levy on local property taxpayers at a cost to the Province of $246 million, of which $132 million is covered by recommended provincial tax changes and $114 million becomes an addition to the 1966-67 provincial deficit. They entail no change in the existing

level of provincial grant support for school boards, which is in the order of 45 per cent of expenditures. They do reflect the revised grant treatment of school capital outlays recommended in Volume II, but the effect of this recommendation is introduced at the prevailing level of provincial school support only.

10. At a number of points in this Report, we have made it plain that, in our opinion, the existing level of provincial grants results in a degree of school board reliance on the property tax that is unwarranted because of the patent deficiencies of this tax. Accordingly, we must now contemplate a revision in the level of provincial grants sufficient to substantially reduce local recourse to the property tax for school purposes. One by-product of this change will be to bring the property tax into somewhat closer conformity with the benefit principle. But in revising the level of provincial grants, we are of the opinion that three supplemental considerations are of importance. The first is that school board autonomy demands a degree of reliance on local taxes sufficient to maintain close accountability to the public. The second is that any reduction in recourse to the property tax must be gauged in the light of its repercussion on the level of other taxes and on the resulting distribution of government benefits and costs among different classes of taxpayers. The third is the fact that our basic shelter exemption grant will mitigate the most regressive aspects of the property tax. Ultimately, of course, the equity of a tax system depends on the effective distribution of expenditure benefits and tax burdens among individuals.

11. In light of the above, we point out that the quantifiable recommendations made elsewhere in this Report have already achieved a substantial reduction in the property tax burden. This makes it possible to contemplate a level of school grants that is consistent with the objective of maintaining school board responsibility through a realistic degree of reliance on the one autonomous revenue source available to them: the property tax. Finally, there is the question of the repercussion of the changes on rates of income and consumption taxes and on levels of debt. All of these concerns are given quantified expression in Table 8:3, where we introduce the fiscal effect on the provincial government of school grants designed to finance, on the average, 60 per cent of local education costs.

12. Table 8:3 must necessarily repeat a good deal of the material covered in Table 8:2. To simplify the reader's task in following the data, we accordingly set out in italic type the figures in Table 8:3 that depart from those in Table 8:2.

13. Beginning with the provincial expenditure picture, the first major change is the insertion of the additional cost to the Province of school grants designed to yield 60 per cent of local education expenditure, calculated by us as $136 million. Because this additional aid reduces local revenue requirements, it is offset somewhat by reductions in the two recommended provincial contributions shown in Table 8:2 whose level depends on the size of these requirements. We refer to payments in lieu of taxes, which now become $34 million instead of $38 million, and to the basic shelter exemption grant, which falls from $111 million to $95 million. Finally, the new school capital grants rise from $35 million to $50 million because

TABLE 8:3

THE FISCAL EFFECT ON THE PROVINCIAL GOVERNMENT FOR 1966-67, ASSUMING CHANGES RECOMMENDED IN VOLUMES II AND III, INCREASED PROVINCIAL SCHOOL GRANTS, AND TAX RATE CHANGES NECESSARY TO MAINTAIN A REASONABLE RATIO OF DEBT TO PROVINCIAL DOMESTIC PRODUCT

(millions of dollars)

Expenditure		
Actual Expenditure (Estimated)		1,929
Add:		
Increased grants to school boards	*136*	
Administration of justice	15	
New municipal unconditional grant	32	
Other municipal grants (net)	15	
Payments in lieu of taxes	*34*	
Basic shelter exemption grant	*95*	
New school capital grants	*50*	*377*
Revised Actual Expenditure		*2,306*
Revenue		
Actual Revenue (Estimated)		1,789
Add:		
Additional revenue from new sales tax base	128	
All other revenue changes (net)	4	132
Revised Revenue		1,921
Deficit		
Actual Deficit (Estimated)		140
Net effect of changes set out above		*245*
Revised Deficit before tax rate increases		*385*
Deduct Additional Revenue from tax rate increases of:		
8% federal basic personal income tax	128	
1% sales tax	103	
1¢ gasoline tax (1.4¢ other motor fuels)	18	249
Deficit after tax rate increases		136
Net Capital Debt		
Net Capital Debt April 1, 1966		1,514
Add:		
Deficit after tax rate increases		136
Revised Net Capital Debt March 31, 1967		1,650
Increase in debt allowed for new school capital grants permitting corresponding reduction in municipal debt		50
Remaining Revised Net Capital Debt		1,600
Estimated Provincial Domestic Product, 1966		20,500
Remaining Revised Net Capital Debt as a Percentage of P.D.P.		7.8%

they are subject to the over-all increase in school grant levels to 60 per cent. With the other items of provincial expenditure unchanged from Table 8:2, Table 8:3 shows a total increase in spending of $377 million, bringing revised actual expenditure for 1966-67 to $2,306 million. Since revised revenues, at $1,921 million, are unchanged from Table 8:2, there is a resulting over-all deficit of $385 million, of which $245 million represents the net increase over the deficit of $140 million actually sustained in 1966-67.

14. It is abundantly clear that, under the provincial debt policy we espouse and shall explain shortly, a deficit of this magnitude could not have been tolerated. For this reason we are forced to contemplate tax increases in three revenue fields: the personal income tax, the sales tax and the gasoline tax. As shown in Table 8:3, we would have drawn from the first an additional $128 million in revenue, from the second $103 million and from the third $18 million. Totalling $249 million, these revenue increases would have reduced the deficit from $385 million to $136 million, a level very closely comparable to the $140 million deficit actually sustained, according to our calculations, by the Province in 1966-67.

15. It now behooves us to explain briefly the reasoning behind the tax increases we contemplate. These admittedly large increases are the direct result of additions to provincial expenditure designed solely to reduce local government recourse to another revenue source, the property tax. To lighten property tax burdens is to cut back the tax that our incidence study shows to be by far the most regressive. To the extent that property tax reductions are met by increases in the personal income tax, they are financed by the tax that is best in accord with the principle of ability to pay. Our over-all objective, however, is an Ontario fiscal system that is not sharply progressive but, as explained at the outset of this volume, moderately so. For this reason, we are hardly prepared to finance all property tax reductions through the personal income tax. To follow this course would in any event all but preclude such future personal income tax increases as might become necessary, to say nothing of bringing about undesirably sharp rate changes in but a single year. Under these circumstances, the personal income tax increase of 8 per cent of the federal basic tax shown in the Table, all of which would have been, in 1966-67, a net addition to the 24 per cent provincial tax abated by the federal government, represents what to us is the maximum advisable reliance on this tax for that year. We note in this context that two provinces whose personal income tax is collected by the federal government now exceed the federal abatement by 5 percentage points.

16. Turning now to consumption taxes, it is with some reluctance that we arrive at an extra 1 per cent on the retail sales tax, thereby bringing its effective rate from 5 to 6 per cent. Under the recommendations in Volume III whereby we broaden the base of this tax, $128 million has already been added to its weight. In superimposing the $103 million produced by our 1 percentage point rate increase, we are in effect relying upon the sales tax for $231 million in additional revenue. We hasten to point out, however, that our reluctance is due far more

to the sudden introduction of a change of this magnitude than to any consequences in equity. Depending on the family-income group, our incidence studies show that the Ontario retail sales tax is generally proportional or mildly progressive. Because our sales tax increase, large though it may appear, entails corresponding reductions in the regressive property tax, the equity of the Ontario fiscal system is thereby enhanced. The same comment applies to the equity effect of our illustrative increase in gasoline and diesel fuel taxes.

17. But in that we regard motor vehicle fuel taxes as closely tied to road benefits, there are limits on the increases that can be contemplated in any given year. In our chapter on the subject, we have expressed the opinion that taxes on road users should yield annually no less than 65 per cent and no more than 75 per cent of total road expenditures. The 1¢ increase we show for 1966-67 leaves the yield of these taxes well within this range.

18. For the purpose of our 1966-67 exercise, we do not choose to have recourse to rate increases in any other tax fields, and this for three reasons. First, taxes on property, income and consumption are the largest revenue producers in Ontario. Reduced reliance on any one of these inevitably entails heavy recourse to the others. Second, because income and consumption taxes are so much more equitable than the property tax, equity is enhanced by financing reduced property tax burdens through higher income and consumption taxes. Third, there are grave drawbacks to contemplating early increases in any of the other taxes. Thus, for example, this Report advocates far-reaching structural changes in succession duties and the mining profits tax. To superimpose rate increases on a newly revised tax structure would complicate matters. As for the corporation income tax, its uncertain incidence and capricious economic effects mark it as a decidedly inferior source of additional revenue. None of this is to say that we would refrain from contemplating increases in these or any other taxes under certain circumstances. Such increases might be necessary to avoid a clearly unacceptable degree of additional reliance on income and consumption taxes. Fortunately, however, the 1966-67 fiscal picture requires no such drastic measures.

19. With $381 million of additional revenue in hand, and a resulting deficit therefore comparable to that sustained in 1966-67, we can now return to Table 8:3. Added to the provincial net capital debt of $1,514 million at the beginning of the fiscal year, our projected deficit of $136 million after tax rate increases yields an end-of-year debt of $1,650 million. Is this an acceptable level of debt for the Province of Ontario?

20. In the chapters of Volume I and III that we devote to debt policy, we conclude that for the Province of Ontario to maintain debt at a relatively constant ratio of provincial domestic product would constitute a basically conservative fiscal approach. We have none the less followed this approach in dealing with the period covered by our projection, that is to the year 1974-75. This is because our projection cannot take account of new expenditure programs that might be

generated in the context of future economic growth. Accordingly, we have formulated the rule that the Province should maintain debt at a ratio of approximately 9 per cent of P.D.P. In any given year, considerations of counter-cyclical fiscal policy should impel the Province to carry forward debt increases that would raise this ratio in recession and reduce it in prosperity. As economic circumstances in 1966-67 were unusually buoyant, the policy we recommend calls for an end-of-year debt somewhat below the 9 per cent ratio.

21. The debt level projections under which we develop our 9 per cent rule must now be adjusted to take account of our recommendation concerning school capital grants. Under the grant system we depict for 1966-67, the Province would have contributed 60 per cent of the school capital outlays made in that year. In addition, however, the Province would have reimbursed local governments for 60 per cent of the debt charges they incurred from borrowing in earlier years under the capital grant system then in force. It follows that a special debt allowance is necessary for the transitional period during which the Province simultaneously assumes what would otherwise become local school debt and makes grants toward previously incurred local debt charges. We accordingly introduce in Table 8:3 a calculated allowance of $50 million, thereby producing a revised net capital debt figure of $1,600 million. Taken as a proportion of P.D.P., this figure yields a debt-to-P.D.P. ratio that we deem acceptable in a year of unusual economic buoyancy—7.8 per cent.

22. While achieving this satisfactory debt level in a setting of substantially enhanced aid to local government has necessitated substantial tax increases, we feel bound to point out that 1966-67 is a most favourable year in which to attempt a statistical demonstration of the effects of our recommendations. This is not simply because economic prosperity boosted tax yields beyond what would normally be expected. More especially, it is because the state of the provincial accounts on which we base our exercise is considerably more unfavourable than can reasonably be expected in any future year. In Chapter 6 we develop a set of projections that show an ever-widening gap between provincial revenues and expenditures to the year 1974-75. So long as this gap remains manageable, as it is for 1966-67, it is possible to implement our recommendations through provincial tax increases which, though large, are hardly punitive. But subsequently, as the projected gap widens, substantial tax increases appear unavoidable simply to meet existing provincial commitments, let alone finance the additional ones entailed by our Report. Thus, when the quantitative impact of this Report is assessed for succeeding years, it will be necessary to consider much higher tax increases than those used in our 1966-67 illustration, or to stage the timing of additional provincial aid to local government, or both.

23. But this cloud hovers over a horizon that we shall not reach until the next section of this chapter. For the moment, we can confine ourselves to the task of surveying the 1966 local scene under our Report. The fiscal effect on local government of all quantifiable recommendations made in Volumes II and III,

together with a 60 per cent level of school grants, is depicted in Table 8:4. The reduction in levy on local property taxpayers—from $960 million to $648 million—is within an eyelash of a full one-third. As to local debt outstanding at the end of the fiscal year, its ratio to P.D.P. is one of 9.5 per cent. Later in this Report, we conclude that municipal debt as constituted at present should not be permitted to exceed 9 per cent of P.D.P. We also recommend that municipalities be required to borrow for separate school boards as well as other school boards. The 9.5 per cent debt-to-P.D.P. ratio shown in Table 8:4 is consistent with these two measures in that it includes separate school debt, and comprises a level of municipal debt which, if calculated on the old basis, would have amounted to a little less than 9.0 per cent of P.D.P. It is therefore fully satisfactory.

TABLE 8:4

THE FISCAL EFFECT ON LOCAL GOVERNMENTS FOR 1966, ASSUMING CHANGES RECOMMENDED IN VOLUMES II AND III, AND INCREASED PROVINCIAL SCHOOL GRANTS

(millions of dollars)

Actual Tax Levies (Estimated)		960
Deduct:		
Increased school grants	136	
Administration of justice	15	
New municipal unconditional grant	32	
Other municipal grants (net)	15	
	198	
Less sales tax payable	15	183
Revised Revenue Requirements		777
Deduct:		
Increased payments in lieu of tax	34	
Basic shelter exemption grant	95	129
Revised Levy on Local Property Taxpayers		648
Local Debt Outstanding at End of Fiscal Year		1,997*
Deduct:		
Reduction in borrowing because of revised school capital grants		50
Revised Local Debt		1,947
Provincial Domestic Product		20,500
Revised local debt as a per cent of P.D.P.		9.5%

*Includes separate school debt of $162 million.

24. We deem it particularly instructive at this juncture to reach behind the figures in Table 8:4 for a discussion of two subjects that we have found especially challenging—school finance and the general equity of the property tax. Concerning the first, we wish to emphasize that school grants at a level of 60 per cent of local education costs are not the sole source of additional provincial aid we make avail-

able to school boards. The provincial basic shelter exemption grant contributes to school board revenue because it is payable on behalf of school taxes no less than municipal. Again, school boards will benefit from increased provincial payments in lieu of taxes proportionately more than municipalities, in that the latter have heretofore received payments for which school boards were ineligible. The over-all effect of our recommendations is therefore to give school boards something like two-thirds of their revenue requirements from provincial sources. At the same time, because the basic school grant rate of 60 per cent still requires school boards on average to levy at a mill rate based on 40 per cent of their expenditure, autonomy and responsibility are not thereby unduly endangered.

25. With respect to the equity of the property tax, whether for municipal or school purposes, we readily admit that a fiscal sow's ear has hardly been transformed into a silk purse. By its very nature, the property tax can never be truly equitable. It must none the less retain importance because it is the financial cornerstone of local government. We believe that, under our recommendations, the property tax can henceforth survive with appreciably reduced inequity. This is not simply because less revenue will be required of it. More especially, the effect of the basic shelter exemption grant is to make available proportionately more tax relief where it is most needed. Indeed, on residential properties with the lowest market values, up to 50 per cent of the tax may be removed from the owners or occupants. The most harshly regressive aspects of the tax are thereby substantially mitigated.

THE FISCAL SCENE: 1968-75

26. Departing now from our 1966-67 statistical exercise, we shift to the period 1968-75. This shift is of immense practical importance because, after all, our recommendations can be implemented only in the future. But it necessitates considerable sacrifices in accuracy. The calculation of the effect of our recommendations, which for 1966-67 was a matter of departing largely from actual data, now involves piling estimates on projections which are themselves estimates. These projections were completed during the summer of 1966 and were of necessity based on the information available in that time. They accordingly do not take account of certain new developments, such as the recent federal-provincial arrangements for the financing of post-secondary education and the accompanying size of provincial expenditure commitments to community colleges. Nor are they based on economic conditions as buoyant as those that have in fact materialized.

27. In making our projections, we were concerned with general trends over a longer period rather than with the circumstances of any one year. We assumed that the economy, which was in a highly prosperous condition in 1966, would experience some slowing down in its rate of expansion and would return to the projected level of P.D.P. by 1969. Thereafter, we assumed that fluctuations would occur around the projected values.

28. As we consider the position a year later it appears that the P.D.P., barring

a more serious recession than we think at all probable in the light of post-war experience, is likely to be somewhat above the value we projected for the next few years. What is the effect on our projections of government revenue, expenditure and debt of a level of P.D.P. that exceeds the value we projected for it?

29. It is immediately obvious that if P.D.P. or income is higher than we had expected, then, with a given level of tax rates, government revenues, especially those of the Province, will also be higher than we had projected. But it is also true that in a more prosperous period costs are likely to be higher than they would have been otherwise. On balance we would expect that the gain in revenue when the economy is more prosperous than projected would be somewhat greater than the increase in expenditure, but what is clear is that there are forces pulling in both directions and no definite statement can be made as to which one will dominate. We are of the view that, if the economy of the Province for the next few years is somewhat more prosperous than we had projected, the scale of revenue, expenditure and debt will be changed, but we would not expect any striking change in the proportion they bear to one another, and to P.D.P.[3]

30. Bearing in mind the difficulty of the exercise, we have chosen to illustrate the statistical dimension of the measures we contemplate in only three of the seven fiscal years that span the period 1968-75. The first, 1968-69, is the earliest in which any of our recommendations could begin to take hold. The second, 1971-72, is the middle year in the time period under discussion. The third, 1974-75, is also the last in the period and as such enables us to sketch a scene that takes cumulative account of all statistically predictable developments.

31. Our exercise begins with Table 8:5. This Table shows, for each of the years under discussion, projected provincial expenditures and revenues before and after the recommendations made in Volumes II and III, including provision for higher school grants. Figures for 1968-69 appear in two columns, A and B, of which the former assumes full implementation of all items of additional aid to local government, and the latter involves a phased approach to be discussed shortly. Item 7, the most important line in the Table, shows the projected deficit after the revenue recommendations in Volumes II and III but before tax rate changes. These deficits are, for 1968-69, $598 million (column A) and $533 million (column B), for 1971-72 $819 million, and for 1974-75 $1,123 million. The staggering magnitude of these amounts, so much greater than the $385 million with which we attempted to cope in our 1966-67 exercise, is due in large part to the widening provincial revenue-expenditure gap projected in our forecast, a gap that haunts the fiscal scene with or without our recommendations.

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[3]Recent experience with the provincial accounts gives us some small encouragement on this score. The 1967-68 provincial revenue and expenditure estimates as given in the 1967 provincial budget are both substantially higher than our projection of these items, as would indeed be expected in a prosperous period. But the increase in the net capital debt of the Province as estimated by the Provincial Treasurer is $162 million, while our projected figure adjusted to the provincial accounts basis is $161 million.

Table 8:5

PROJECTED PROVINCIAL DEFICIT AFTER RECOMMENDATIONS, INCLUDING PROVISION FOR HIGHER SCHOOL GRANTS, BUT BEFORE TAX RATE CHANGES, IN SELECTED FISCAL YEARS 1968–75

(millions of dollars)

	1968-69 A	*1968-69 B*	*1971-72*	*1974-75*
1. Projected provincial expenditure before recommendations*	2,280	2,280	2,820	3,569
2. Additional provincial expenditures after recommendations, including provision for higher school grants	390	325	441	500
3. Total projected provincial expenditures after recommendations, including provision for higher school grants	2,670	2,605	3,261	4,069
4. Projected provincial revenue before recommendations	1,925	1,925	2,265	2,724
5. Additional provincial revenue from recommendations made in Volumes II and III	147	147	177	222
6. Provincial revenue after recommendations made in Volumes II and III	2,072	2,072	2,442	2,946
7. Projected deficit before requisite tax rate changes	598	533	819	1,123

*The projected expenditure figures for each of the years shown are lower than those originally projected in Chapter 6 by $10 million in 1968-69, $66 million in 1971-72 and $153 million in 1974-75. Each of these figures represents reductions in interest payments. The 1968-69 adjustment is necessitated by the fact that economic conditions more buoyant than those originally forecast will have resulted in an outstanding debt at the beginning of that year lower than the one originally projected by us. As to 1971-72 and 1974-75, interest reductions are necessary because of the cumulative effect of the revenue measures we develop later in this chapter. We assume that these measures are allowed to take hold in such manner that the debt outstanding in any given year during the period under consideration has been held in a constant relation to P.D.P., thereby reducing the interest load in subsequent years.

32. Facing as we do clearly unacceptable deficits, we indicate in Tables 8:6 and 8:7 the outcome of a quest for requisite tax rate increases whose additional yield could reduce the deficits to tolerable size. Table 8:6 shows tax increases over 1967 levels for each of nine revenue fields in the years under discussion, together with their resulting yields. Its companion Table, 8:7, lists the over-all provincial tax rates that would be applicable under the contemplated increases. Because of their complicated structure, it is impracticable to devise, for Table 8:7, the applicable rates of liquor mark-up, tobacco tax and succession duty.

33. Concentrating first on the year 1968-69, we begin by introducing personal income and sales tax increases similar to the ones contemplated in our 1966-67 exercise. These increases are 8 per cent on the federal basic tax, bringing the provincial personal income tax rate to 36 per cent, and 1 per cent on sales for an over-all tax of 6 per cent. They are subject to the same comments as were made in the context of 1966-67 and involve the maximum change we deem tolerable

TABLE 8:6

TAX RATE CHANGES REQUIRED TO COPE WITH DEFICITS PROJECTED IN TABLE 8:5

(dollar figures in millions)

	Cumulative Tax Increase Over 1967 and Resulting Revenue Yield					
	1968-69		*1971-72*		*1974-75*	
	Cum. tax increase	*Yield*	*Cum. tax increase*	*Yield*	*Cum. tax increase*	*Yield*
Personal income tax—additional percentage points applicable to federal basic tax	8%	$144	10%	$210	12%	$324
Sales tax—additional percentage points applicable to sales	1%	113	2%	264	2%	320
Gasoline and motor fuels taxes—additional cents per gallon	2¢ gas 2.7¢ other	40	3¢ gas 4¢ other	66	3¢ gas 4¢ other	72
Corporation income tax—additional percentage applicable to taxable incomes	1%	27	1%	31	3%	111
Liquor profits—percentage increase in sales prices	5%	30	5%	35	7%	60
Insurance premiums tax—additional percentage points applicable to premiums	nil	nil	1%	12	1%	15
Tobacco tax—increase in level of tax	nil	nil	⅓	8	⅓	9
Succession duties—increase in level of tax	nil	nil	10%	11	10%	14
Mines profits tax—increase in percentage points applicable to mines profits	nil	nil	nil	nil	3%	6
Total Yield from Tax Rate Changes		$354		$637		$931

in a single year. But given the magnitude of the 1968-69 deficit, we are forced to seek still greater revenue elsewhere. We consider motor vehicle fuel taxes to be the strongest candidate. This is because, under our equity rule that road-user taxes should finance between 65 and 75 per cent of road expenditures, there is room within the ceiling of the range for a 2¢ rise in the gasoline tax, 1¢ more than we would have utilized in 1966-67, accompanied by a proportional increase in diesel-fuel tax. Where fiscal requirements are large, we deem it reasonable that the revenues contributed by road users should be at the top of the range permitted by the benefits principle.

Table 8:7

RATES OF TAX* THAT WOULD BE IN EFFECT AFTER RATE CHANGES, COMPARED TO ACTUAL RATES AS OF JANUARY 1, 1967

	Jan. 1, 1967	*1968-69*	*1971-72*	*1974-75*
Personal income tax† Rate applicable to federal basic tax	28%	36%	38%	40%
Sales tax Rate applicable to sales	5%	6%	7%	7%
Gasoline and other motor fuel taxes Rate per gallon	16¢ gas 22¢ other	18¢ gas 24.7¢ other	19¢ gas 26¢ other	19¢ gas 26¢ other
Corporation income tax Rate applicable to incomes	12%	13%	13%	15%
Insurance premiums tax Rate applicable to premiums	2%	2%	3%	3%
Mines profits tax Rate applicable to mines profits	12%	12%	12%	15%

*This Table omits three revenue sources—the tobacco tax, liquor profits and succession duties. The tobacco tax is excluded because it applies at variable rates and is therefore too complicated for summary presentation. The other two revenue sources would be restructured under recommendations made in this Report; their rates are therefore not subject to simple tabular comparison with those in effect in 1967.

†The personal income tax rate was increased by 4 percentage points, and the corporation income tax rate by 1 percentage point effective January 1, 1967. At this time the federal government increased its abatement correspondingly as a result of revised arrangements for sharing post-secondary education costs.

34. Unfortunately, there is no escaping yet further provincial tax increases under our projections for 1968-69 if net capital debt, which we shall examine momentarily, is to be within hailing distance of 9 per cent of P.D.P. Drawing only the coldest comfort from the unlikely prospect that 1968 might be a year of such magnificent prosperity as to preclude the need, we hesitantly draw on the corporation income tax and on liquor profits. An extra 1 percentage point on corporate income, bringing the Ontario tax rate to 13, coupled with a rise in the liquor mark-up equivalent to a 5 per cent increase in sales price, yields an additional $57 million. Added to the sum produced by the personal income, sales and motor vehicle tax changes, the result is the $354 million appearing at the bottom of Table 8:6. As to our reluctance at tapping the corporation income tax and liquor profits, we simply refer back to our comments in the context of 1966-67 and postpone further discussion to the final section of this chapter.

35. We now press on to 1971-72 and 1974-75. As a preliminary point, we must unhappily report that the scene is even darker than it appears in the Tables. Whereas, in 1968-69, the Province could have realized a tolerable deficit simply by effecting in that year the revenue changes we depict, the same is not true of either 1971-72 or 1974-75. Because our projected expenditure-revenue gap widens annually, it requires modification that is likewise annual. Accordingly, of the tax increases we show for 1971-72 and 1974-75, some will have had to be made in

earlier years. If they have not, then the 1971-72 and 1974-75 gaps will be that much larger and would require at those times even greater increases than the ones shown.

36. With this ominous observation in mind, we can summarize the requisite tax changes as follows. By 1971-72, the personal income tax would have had to reach 38 per cent of the federal basic tax, and to have increased further to 40 per cent by 1974-75. Sales and gasoline taxes, after rising again by 1971-72 to 7 per cent and 19¢ respectively, could remain unchanged for the rest of the period. Though the corporation income tax and liquor profits could maintain their 1968-69 levels through 1971-72, additional increases would have to materialize subsequently, resulting in a 15 per cent corporate tax and liquor prices 7 per cent above existing levels. For the rest, we envisage a 3 rather than 2 per cent insurance premiums tax, a one-third increase in the tobacco tax and the equivalent of a 10 per cent adjustment in succession duties, all by 1971-72. A 3 per cent boost in the mines profits tax could be postponed to 1974-75.

37. In that we envisage increases ultimately affecting virtually every revenue source in Ontario, we must stress that our prime consideration is equity, not expediency. In equity, no tax can be completely isolated from the fiscal system of which it is part. Thus, to take a few examples, additional taxes on personal income must eventually call for an upward revision in the taxation of wealth, of which succession duties constitute the key form. There also comes a point where the tax on corporation income must be reconsidered in the light of that on personal income. Again, if the retail sales tax is rising, so should taxes on tobacco and insurance premiums, which stand in lieu of sales tax. If we therefore advocate increases widely dispersed among tax fields, this is the result of our concern for an equitable and balanced fiscal system, not the outcome of a simple grapeshot approach.

38. We now carry the revenues yielded by our exercise, $637 million in 1971-72 and $931 million in 1974-75, together with the $354 million obtained in 1968-69, to Table 8:8. Here our increases can be seen to reduce the projected deficit to a size that leaves net capital debt, after allowing an adjustment for the new school capital grant,[4] at exactly 9 per cent of P.D.P. in each of 1971-72 and 1974-75, but above this ratio in 1968-69. The reader will note that, as in Table 8:5, we present data for 1968-69 under two columns, A and B, of which the first assumes immediate implementation of all contemplated assistance to local government, and the second a phased approach. When stated in terms of the relation between debt and P.D.P., the two approaches yield ratios of 9.8 and 9.5 per cent respectively.

[4]This particular adjustment declines steadily in value because it is warranted only in the transitional period during which the Province simultaneously finances the capital outlays of school boards at the time they are made and continues to make grants on debt charges locally incurred prior to the year of implementation. No adjustment will be called for once all school debt contracted prior to the year of implementation has been retired; in the meantime, the adjustment gradually declines with each succeeding retirement of "old" school debt.

39. If we are willing to countenance, in 1968-69, debt ratios substantially above 9 per cent, it is because we believe that our tax rate changes for that year lie at the outside limits of tolerance. Even after substantially increased use of personal income and consumption taxes, we are forced to have recourse to the economic uncertainties of an increase in corporate income tax. Going still further, we have not only violated the principle of neutrality in the taxation of consumption by singling out liquor for a price rise but, in that liquor prices will themselves be subject to the higher retail sales tax, we have countenanced what is in effect a double tax increase. Under such circumstances, we find ourselves forced to concede the necessity for a debt ratio in excess of 9 per cent, but as between the levels of 9.8 and 9.5 per cent, the latter is clearly preferable. We note in this context that while the difference between the two ratios of only 0.3 per cent may appear almost marginal, expenditure commitments of no less than $65 million are involved.

40. Fortunately, the case for restraint that is indicated by revenue and debt levels also beckons in the light of a rational approach to the grants we recommend. To be sure, most of these grants do not, in our view, lend themselves to a policy of gradual introduction. Thus we would be loath to advocate phased implementation of our basic shelter exemption grant, because this subsidy brings relief where it is most needed. Provincial payments in lieu of tax, for their part, will close what has been an all but inexcusable loophole in the property tax base. The full amount of our new unconditional grant to municipalities is necessary to abolish the split mill rate. School grants, however, are another matter. Here we find a convincing case for gradual implementation, one arising from our very recommendations on the subject.

41. In the chapter we devote to school finance, we espouse a number of complex adjustments in the school grant structure. Time is required, by the responsible provincial authorities no less than by the local school boards, to give effect to these measures. Furthermore, it is most desirable to ensure that major structural changes be accompanied by a rising level of aid that will ease the impact of adjustment.

42. With ample justification on grounds of debt, tax and grant policy, we accordingly urge that the government achieve the 60 per cent level of school aid we envisage through deliberate staging. From their present average level of about 45 per cent, the grants should take their sharpest rise at the outset because of the revenue effects of abolishing the split mill rate for school as well as municipal purposes. We estimate that a first year average rate of 52 per cent is sufficient to meet our objectives equitably, and it is on this basis that the grants were calculated for column B of Tables 8:5 and 8:8. Thereafter the grants might be allowed to reach a 56 per cent level in the second year, and should attain their full 60 per cent average in the third year. Accordingly, *we recommend that:*

> ***The Province raise the average level of education grants to 60 per cent of school board expenditure over a three-year period.*** **8:1**

TABLE 8:8

PROJECTED PROVINCIAL DEFICIT BEFORE AND AFTER TAX RATE CHANGES, AND RESULTING NET CAPITAL DEBT POSITION

(*millions of dollars*)

	1968-69 A	*1968-69 B*	*1971-72*	*1974-75*
Projected deficit before tax rate changes (Table 8:5)	598	533	819	1,123
Deduct additional yield from tax rate changes (Table 8:6)	354	354	637	931
Projected deficit after tax rate changes	244	179	182	192
Add projected net capital debt at beginning of fiscal year	1,926	1,926	2,124	2,547
Projected net capital debt at end of fiscal year after tax rate changes	2,170	2,105	2,306	2,739
Deduct allowance for new school capital grants	60	52	45	30
Projected net capital debt at end of fiscal year after tax rate changes and allowance for new school capital grants	2,110	2,053	2,261	2,709
P.D.P.	21,600	21,600	25,000	30,000
Projected net capital debt as a percentage of P.D.P.	9.8%	9.5%	9.0%	9.0%

43. With the above recommendation, we can complete our statistical sketch by addressing ourselves to Tables 8:9 and 8:10. Table 8:9 simply records projected local expenditure, revenue and debt under this Report, including separate school debt. Its companion Table sets forth the degree of relief accorded to local property taxpayers. As the latter shows, under a phased implementation of school grants,

TABLE 8:9

LOCAL EXPENDITURE, REVENUE AND DEBT POSITION, ASSUMING IMPLEMENTATION OF THE RECOMMENDATIONS

(*millions of dollars*)

	1968	*1971*	*1974*
Expenditure after recommendations	2,028	2,504	3,086
Deduct revenues after recommendations	1,968	2,384	2,926
Additions to debt	60	120	160
Debt at end of fiscal year*	2,120	2,440	2,920
P.D.P.	21,600	25,000	30,000
Debt as a percentage of P.D.P.†	9.8%	9.8%	9.7%

*Debt figures are reduced to take account of school capital debt to be assumed by the Province under the recommendations.

†Debt includes separate school debt as under our recommendations municipalities would borrow for separate school boards. Debt, excluding separate school debt, as a percentage of P.D.P. would be 9 per cent for each of the three years.

Table 8:10

EFFECTIVE LEVY ON LOCAL PROPERTY TAXPAYERS, ASSUMING IMPLEMENTATION OF THE RECOMMENDATIONS AS A PERCENTAGE OF PROJECTED TAX

(*millions of dollars*)

	1968	*1971*	*1974*
Projected tax levies before recommendations	1,099	1,387	1,748
Deduct additional provincial payments under recommendations*	255	374	435
Effective levy on local property taxpayers	844	1,013	1,313
Effective levy as a per cent of projected levy	76.8%	73.0%	75.1%

*Excluding school capital grants.

the effective local tax levy in 1968 plummets to only slightly more than three-quarters of the level it would otherwise reach. By 1971 when the school grants are completely implemented, it is even lower. But the reader will observe that countervailing forces are at work. The full effect of our recommendations in 1971 is an effective levy of 73 per cent of the projected levy, whereas, in the exercise we undertook on the basis of 1966 data, it was within a small margin of two-thirds. Furthermore, our projections include a moderate annual rise in the property tax of 1 mill. This rise will become apparent on every tax bill from the time all new grants are fully in effect. By 1974, the effective levy as a percentage of the projected levy has indeed begun to rise. The reason is as simple as the classic fiscal story of local government. The natural forces at work on local expenditures outstrip the elasticity of their revenue sources, including some that we ourselves have devised. This is particularly so of our new unconditional grant, which is tied to population and is impervious to rising local costs. It is true as well of our basic shelter exemption grant, which does not take into account higher levels of market value. All of this argues for the need to keep the local fiscal scene under continued surveillance, as we recommend in this Report. It also underlines the fact that the provincial tax increases we suggest do not by any means imply that the property tax will itself be exempt from the pressures on the fiscal system. Accordingly, there may well be a need for an upward revision in the level of grants we recommend before the period under discussion ends, and this even in the light of the drastic income and consumption tax increases the Province will already have been called upon to make.

THE FISCAL SCENE: CONCLUDING COMMENTS

44. In closing this chapter, we wish first to remind the reader that its exposition is confined to those of our recommendations whose impact is direct and quantifiable. The remainder are no less important, whether from the viewpoint of equity, efficiency or economic growth. Not the least of their virtues is that they can substantially mitigate the harsh effects of the provincial tax increases we envisage.

45. We are duty bound, of course, to comment at some length on the size of these increases. First, their size demonstrates in stark terms the magnitude of the revenue problem that faces the Province of Ontario. Second, they are meant to illustrate the manner in which we would distribute tax increases in the future, that is, to indicate the relative emphasis upon the various tax and other revenue sources we think it most appropriate to adopt. Third and finally, they generate important consequences both for the structure of taxation and for federal-provincial negotiation.

46. Concerning this problem of the sharp increases in the prospective magnitude of Ontario's expenditure-revenue gap, we face a situation whose gravity is not to be underestimated. We emphasize that the tax increases that we have projected are based only on the needs generated by the expenditure programs to which provincial and local governments were committed at the time we made our projections. While these projections cannot take account of possible future economies that would reduce the cost of present programs, we find it reasonable to assume that any new expenditure commitments in the period under review will involve either equivalent additional taxation or recourse to additional debt. As to the latter, the debt policy we espouse is in fact not so rigid as to preclude a secular rise in provincial debt that would result in debt ratios moderately above 9 per cent of P.D.P. However, we have felt bound to apply the 9 per cent rule with reasonable stringency in developing prospective tax increases precisely because our expenditure projections cannot take account of possible new programs. We have no mandate to comment on government expenditure, but we must point out that even the tax levels that we have been compelled to contemplate give us serious concern about whether the resulting revenue system would be "as conducive to the sound growth of the Province as can be devised". The searching scrutiny that should accordingly be given to any new spending programs is therefore obvious, as is the need to ensure that existing expenditures are efficient and equitable.

47. As to the relative weight we place on different taxes in our illustrative increases, what we depict is the kind of balance we deem advisable in meeting through taxation the sharply rising demands on the Ontario revenue system. Having drastically reduced the burden of the property tax, we weight most heavily taxes on income and consumption, recognizing their superiority in equity, clarity and simplicity. But we also recognize that taxes are often inter-related, and that hence, to take an example, higher taxes on personal income legitimately call for a reconsideration of succession duties. We are therefore reasonably satisfied with the balance exhibited by our revenue pattern. Nevertheless, we are concerned about the use of the corporate income tax, which must be considered most carefully in terms of its economic consequences. In particular, because of its possible effects on the competitive position of Ontario firms, the corporate income tax should at all times be set, if not at precisely comparable levels, at least with due regard to the levels of corporate taxation that prevail in other jurisdictions, foreign as well as Canadian.

48. With this reservation duly noted, we believe that, in meeting its future revenue requirements through taxation, the Province should follow the pattern of relative weights that our tax increases indicate. *We therefore recommend that:*

> ***To the extent that higher provincial taxation will be needed to meet future revenue requirements, the Province employ a carefully balanced combination of increases in income, consumption and wealth taxes designed to take account of the considerations made explicit in this Report.*** **8:2**

49. Finally, there are the twin questions of tax structure and federal-provincial affairs. Nowhere are these more closely intertwined than in the personal income tax. Here the need for a drastic overhaul in rate structure is imperative. Thus, for example, when we reluctantly add 12 percentage points to the provincial personal income tax, we produce combined federal and provincial tax that is nothing less than a confiscatory tax in the higher rate brackets. To illustrate, the top combined marginal rate at present, 84 per cent on foreign investment income, becomes one of 94 per cent. Quite aside, therefore, from the question of additional federal abatement, there is an urgent need to revise personal income tax rates if only to enable the provinces to levy additional taxes of their own. We note, in this context, that the top effective rate of any tax must always be a matter of special concern. The new system of succession duties we recommend, for instance, involves a progressive rate scheme whose top bracket has been set at a level that, under any equity rule, leaves less room for increases than those below.

50. The Government of Ontario should therefore be in the forefront of those who advocate a revision of the personal income tax schedule. For the rest, this Report builds a clear-cut case for three categories of revisions in federal-provincial revenue arrangements. Those in the first category aim principally at enhancing the simplicity of the tax system and the structural integrity of collection arrangements. Here we advocate, for reasons stated in Volume III, that the federal government vacate the succession duty field, that it allow provincial sharing in the yield of the non-resident withholding tax, and that it recognize that its special corporate surplus distribution taxes reduce the base on which the provinces levy personal income tax.

51. The revisions in the second category involve increased federal abatement in lieu of existing shared-cost programs. There is an exceedingly strong case for such abatements, which we develop at length in this Report. But we feel bound to point out, in the context of the evident magnitude of the Province's financial problems, that tax room in lieu of existing shared-cost programs should not be made at the expense of further unencumbered abatement in federal taxes.

52. This brings us to the third and last category of revisions in federal-provincial arrangements: the necessity for unencumbered additional tax abatements to the Province. Such abatements are clearly indispensable if the Canadian fiscal system is to provide an equitable and rational means of financing the enormous revenue requirements incurred by the provincial governments in the course of

providing ever-rising levels of public services that fall within their constitutional jurisdiction. In that we have already stressed this financial need at great length, we shall only summarize a few of the guiding principles we develop in other chapters. Since the personal income tax has greater elasticity than any other revenue field, there can be no doubt that abatement points on this tax are to be preferred over all others by Ontario. The only limit that we detect in principle on the abatement of this tax is the point beyond which federal capacity to shoulder overriding responsibility for economic stabilization policy would be endangered. Precisely where this point is reached is in no small part a function of the effectiveness of federal-provincial co-ordination in economic matters, but we think that in any event this point lies somewhat beyond the 50 per cent abatement level frequently cited as an upper limit. Accordingly, we place a high premium on the continued development of machinery for this purpose.

53. If it is necessary to complement personal income tax abatement, as appears likely, we are attracted by the possibility of instituting provincial sharing of federal consumption tax revenue. Such a move is complicated by the British North America Act, which in restricting the provinces to direct taxation, precludes provincial sharing of indirect consumption tax revenue by the abatement technique. In the absence of an appropriate constitutional revision, the alternative is for the federal government to pay to the provinces a portion of its revenue from the general manufacturers' sales tax and other excise duties. The admitted deficiency of this scheme is that the provinces would receive revenue from tax rates they had not levied. But it may well be preferable to the final alternative—additional abatement on the corporate income tax.

54. However apportioned among income and consumption taxes, Ontario's need for additional tax room from the federal government is unambiguous. *We therefore recommend that:*

> ***Ontario negotiate with the federal government for substantial tax room over and above any abatements that might be granted in lieu of existing shared-cost programs.*** **8:3**

Appendix A

ORGANIZATIONS FROM WHICH SUBMISSIONS WERE RECEIVED

Arthur Andersen & Co.*
Association of Assessing Officers of Ontario, The Research Committee*
The Association of Canadian Distillers*
The Association of Mining Municipalities of Northern Ontario*
The Association of Ontario Counties*
Association of Ontario Land Economists*
Association of Ontario Mayors and Reeves*
Automotive Transport Association of Ontario*
The Board of Education for the City of Toronto
The Board of Education for the Township of North York
The Board of Trade of Metropolitan Toronto*
Building Owners' and Managers' Association of Toronto
Bureau of Municipal Research*
Caland Ore Company Limited
The Calvin Christian School Society of Toronto†
The Canadian Arthritis and Rheumatism Society
The Canadian Arthritis and Rheumatism Society, Ontario Division
Canadian Automobile Chamber of Commerce
The Canadian Bankers' Association
Canadian Bar Association (Ontario Division), Commercial Law Subsection*
Canadian Book Publishers' Council*
Canadian Booksellers Association
Canadian Construction Association and Affiliated Ontario Construction Associations*
Canadian General Electric Company Limited
Canadian Institute of Steel Construction
The Canadian Life Insurance Officers Association*
The Canadian Manufacturers' Association*
Canadian National Railways*
Canadian Pacific Railway Company*
The Canadian Rehabilitation Council for the Disabled
Canadian Underwriters' Association
Canadian Wholesale Council
Canadian Wine Institute
City of Niagara Falls
City of Sarnia
City of Toronto

*Presented brief at a hearing of the Committee.
†Presented at a public hearing with three others as: Ontario Alliance of Christian Schools.

The Committee of Presidents of Provincially Assisted Universities and Colleges of Ontario*
Communist Party of Canada, Ontario Executive Committee*
The Conservation Council of Ontario*
Consumers' Association of Canada, Ontario Provincial Association*
Corporation of the City of Fort William
The Corporation of The Townships of Medora and Wood
The County of Ontario*
The Equitable Income Tax Foundation
Gas and Petroleum Association of Ontario
Hamilton Automobile Club
Immanuel Christian School of East Toronto†
Imperial Oil Limited
Imperial Tobacco Company of Canada Limited
The Independent Secondary Schools in Ontario
The Institute of Chartered Accountants of Ontario*
The Inter-Church Committee on Legal Affairs*
The Investment Dealers' Association of Canada*
The Life Underwriters Association of Canada
M. Loeb Limited
Motion Picture Theatres Association of Ontario
Municipal Clerks and Finance Officers Association of Ontario
The National Council of the Baking Industry*
North Western Ontario Municipal Association
Old Yonge Estates Ratepayers Association
The Ontario Alliance of Christian Schools*
Ontario Association of Architects
Ontario Bar Association, Taxation Subsection*
Ontario Barbers Association
Ontario Brewers' Institute*
Ontario Carbonated Beverage Association*
The Ontario Chamber of Commerce*
Ontario Credit Union League Limited
Ontario Educational Association
Ontario Federation of Agriculture*
The Ontario Federation of Anglers & Hunters Inc.
Ontario Hospital Association*
The Ontario Library Association, and The Ontario Library Trustees Association
Ontario Medical Association*
Ontario Mining Association*
Ontario Motor League
Ontario Municipal Purchasing Agents' Association*
Ontario Professional Foresters Association

*Presented brief at a hearing of the Committee.
†Presented at a public hearing with three others as: Ontario Alliance of Christian Schools.

Ontario Property Owners Association, and Property Owners Association of Metropolitan Toronto*
Ontario Provincial Council of Women*
Ontario Pulp and Paper Companies
Ontario Retail Lumber Dealers Association Inc.
Ontario School Trustees' and Ratepayers' Association, Inc.*
The Ontario School Trustees' Council*
Ontario Separate School Trustees' Association, and L'Association des Commissions des Ecoles Bilingues d'Ontario*
Ontario Teachers Federation*
Ontario Women's Liberal Association
Petroleum Association of Ontario*
Public Utilities Commission of the City of Kingston
The Retail Council of Canada*
Roman Catholic Bishops of Ontario*
Scarborough and Associated Farmers Association*
School of Economic Science, The Alumni Group*
Timothy Christian School Association of Toronto†
Toronto District Christian High School Association†
Toronto Parking Operators Association
Toronto Stock Exchange
Town Planning Institute of Canada, Central Ontario Chapter*
Trans-Canada Pipe Lines Limited
The Trust Companies Association of Canada, The Ontario Section*
The United Church of Canada*
United Electrical, Radio and Machine Workers of America
The Urban Development Institute (Ontario Division)*
Vaughan Farmers Association
Windsor Estate Planning Council
York County Federation of Agriculture*

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*Presented brief at a hearing of the Committee.
†Presented at a public hearing with three others as: Ontario Alliance of Christian Schools.

Appendix B

INDIVIDUALS FROM WHOM SUBMISSIONS WERE RECEIVED

Best, Ralph L.	Brantford
Blackwell, J. M.	Scarborough
Blanchard, Thomas R.	Toronto
Bricker, Harold	Hamilton
Bristol, Everett, Q.C.	Toronto
Bunt, Lorne E.	Toronto
Capon, Frank S., C.A.*	Montreal
Clark, Charles R.	Angus
Cookson, T. A.	Toronto
David, Thomas	Toronto
Donovan, William A.*	Chatham
Dorland, Ray O.	Chatham
Edwards, W. A.	Toronto
Fisher, Charles P.	Kitchener
Hornsey, G.	La Salle
Kee, Douglas	Toronto
Keele, Mrs. Mary J.	Kingston
Kennedy, Peter J.	Brockville
Kent, Mayor W. A.	Newmarket
Kernighan, H. S., P.Eng.*	Milton
Laurie, R. M.	London
LeLoup, R. H.*	Toronto
Long, Norman W.	Toronto
Lorenzen, Francis, C.A.	Windsor
Lucas, Miss Mary	Welland
Maclaren, G. F., Q.C.	Ottawa
Mannell, Laurie S.*	Oakville
McIntosh, James	Ottawa
McIntosh, John	Toronto
McKinney, Norman	Toronto
Menard, Mrs. Lena Campbell	Hawkesbury
Mortinez, Mrs. T. Taylor	Toronto
Pocock, R., P.Eng.	Woodbridge
Ralph, Mrs. William	Falconbridge
Robert, Miss Germaine	Ottawa
Schofield, Frank	Dunnville
Smith, Marshall Y.	London
Smith, P. J.	Toronto

*Presented brief to a hearing of the Committee.

Smith, William	Scarborough
Stronach, Mayor F. Gordon	London
Templeton, Gilbert	Toronto
Thili, John	Toronto
Wardle, Ernest	Ottawa
White, Frank A.	London
Wood, W. C.	Guelph
Woodward, A. J.	Toronto

*Presented brief to a hearing of the Committee.

Appendix C

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Appendix D

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The Incidence of Government Revenues and Expenditures	Dr. James A. Johnson
Intergovernmental Finance in Ontario: A Provincial-Local Perspective	Dr. J. Stefan Dupré
The Ontario Business Tax	William H. Merritt
Ontario Estates in 1963-64: A Tabular Analysis of Personal Wealth held in Estates out of which Ontario Succession Duties were Paid	Dr. Kenneth Cheng, Dr. John A. G. Grant, and Henry M. Ploeger
The Retail Sales Tax: An Economic Study	Dr. Kenyon E. Poole
Theory of Fiscal Policy as Applied to a Province	Dr. Clarence L. Barber

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Chapter numbers are in bold face; paragraph numbers in light face. **T**=Table.
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